

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-10765

UNIVERSAL HEALTH SERVICES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

23-2077891
(I.R.S. Employer
Identification No.)

**UNIVERSAL CORPORATE CENTER
367 SOUTH GULPH ROAD
KING OF PRUSSIA, PENNSYLVANIA 19406**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (610) 768-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock, \$0.01 par value	UHS	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding, as of October 31, 2021:

Class A	6,577,100
Class B	73,120,179
Class C	661,688
Class D	17,956

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This Quarterly Report on Form 10-Q is for the quarter ended September 30, 2021. This Report modifies and supersedes documents filed prior to this Report. Information that we file with the Securities and Exchange Commission (the “SEC”) in the future will automatically update and supersede information contained in this Report.

In this Quarterly Report, “we,” “us,” “our” “UHS” and the “Company” refer to Universal Health Services, Inc. and its subsidiaries. UHS is a registered trademark of UHS of Delaware, Inc., the management company for, and a wholly-owned subsidiary of Universal Health Services, Inc. Universal Health Services, Inc. is a holding company and operates through its subsidiaries including its management company, UHS of Delaware, Inc. All healthcare and management operations are conducted by subsidiaries of Universal Health Services, Inc. To the extent any reference to “UHS” or “UHS facilities” in this report including letters, narratives or other forms contained herein relates to our healthcare or management operations it is referring to Universal Health Services, Inc.’s subsidiaries including UHS of Delaware, Inc. Further, the terms “we,” “us,” “our” or the “Company” in such context similarly refer to the operations of Universal Health Services Inc.’s subsidiaries including UHS of Delaware, Inc. Any reference to employees or employment contained herein refers to employment with or employees of the subsidiaries of Universal Health Services, Inc. including UHS of Delaware, Inc.

PART I. FINANCIAL INFORMATION

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share amounts)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Net revenues	\$ 3,155,999	\$ 2,912,541	\$ 9,366,866	\$ 8,471,962
Operating charges:				
Salaries, wages and benefits	1,556,448	1,406,348	4,542,156	4,147,027
Other operating expenses	754,072	666,665	2,233,590	1,982,202
Supplies expense	367,834	335,409	1,052,977	936,808
Depreciation and amortization	134,462	125,961	399,850	376,563
Lease and rental expense	28,375	28,488	88,848	84,967
	<u>2,841,191</u>	<u>2,562,871</u>	<u>8,317,421</u>	<u>7,527,567</u>
Income from operations	314,808	349,670	1,049,445	944,395
Interest expense, net	21,199	24,575	64,455	86,399
Other (income) expense, net	6,719	1,831	(1,575)	8,291
Income before income taxes	286,890	323,264	986,565	849,705
Provision for income taxes	67,515	79,172	232,844	204,649
Net income	219,375	244,092	753,721	645,056
Less: Net income attributable to noncontrolling interests	1,024	2,813	1,255	9,811
Net income attributable to UHS	<u>\$ 218,351</u>	<u>\$ 241,279</u>	<u>\$ 752,466</u>	<u>\$ 635,245</u>
Basic earnings per share attributable to UHS	<u>\$ 2.65</u>	<u>\$ 2.84</u>	<u>\$ 8.96</u>	<u>\$ 7.44</u>
Diluted earnings per share attributable to UHS	<u>\$ 2.60</u>	<u>\$ 2.82</u>	<u>\$ 8.83</u>	<u>\$ 7.40</u>
Weighted average number of common shares - basic	82,262	84,672	83,756	85,172
Add: Other share equivalents	1,411	575	1,275	415
Weighted average number of common shares and equivalents - diluted	<u>83,673</u>	<u>85,247</u>	<u>85,031</u>	<u>85,587</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands, unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net income	\$ 219,375	\$ 244,092	\$ 753,721	\$ 645,056
Other comprehensive income (loss):				
Foreign currency translation adjustment	(9,121)	14,245	(23,184)	(18,280)
Other comprehensive income (loss) before tax	(9,121)	14,245	(23,184)	(18,280)
Income tax expense (benefit) related to items of other comprehensive income (loss)	109	302	(1,958)	(908)
Total other comprehensive income (loss), net of tax	(9,230)	13,943	(21,226)	(17,372)
Comprehensive income	210,145	258,035	732,495	627,684
Less: Comprehensive income attributable to noncontrolling interests	1,024	2,813	1,255	9,811
Comprehensive income attributable to UHS	<u>\$ 209,121</u>	<u>\$ 255,222</u>	<u>\$ 731,240</u>	<u>\$ 617,873</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, unaudited)

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 189,743	\$ 1,224,490
Accounts receivable, net	1,764,214	1,728,928
Supplies	202,824	190,417
Other current assets	186,518	138,034
Total current assets	<u>2,343,299</u>	<u>3,281,869</u>
Property and equipment	10,515,812	9,885,888
Less: accumulated depreciation	<u>(4,828,108)</u>	<u>(4,512,764)</u>
	5,687,704	5,373,124
Other assets:		
Goodwill	3,888,999	3,882,715
Deferred income taxes	48,591	22,689
Right of use assets-operating leases	309,387	336,513
Deferred charges	6,721	4,985
Other	<u>562,152</u>	<u>574,984</u>
Total Assets	<u>\$ 12,846,853</u>	<u>\$ 13,476,879</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 44,961	\$ 331,998
Accounts payable and other liabilities	1,845,465	1,668,671
Medicare accelerated payments and deferred CARES Act and other grants	1,375	376,151
Operating lease liabilities	60,853	59,796
Federal and state taxes	16,163	44,423
Total current liabilities	<u>1,968,817</u>	<u>2,481,039</u>
Other noncurrent liabilities	545,282	458,549
Operating lease liabilities noncurrent	250,754	278,303
Medicare accelerated payments noncurrent	0	322,617
Long-term debt	3,709,316	3,524,253
Deferred income taxes	0	5,582
Redeemable noncontrolling interests	4,886	4,569
Equity:		
UHS common stockholders' equity	6,274,021	6,317,146
Noncontrolling interest	93,777	84,821
Total equity	<u>6,367,798</u>	<u>6,401,967</u>
Total Liabilities and Stockholders' Equity	<u>\$ 12,846,853</u>	<u>\$ 13,476,879</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Nine Months ended September 30, 2021
(amounts in thousands, unaudited)

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, July 1, 2021	\$ 4,693	\$ 66	\$ 760	\$ 7	\$ 0	\$ (513,377)	\$ 6,956,520	\$ 36,124	\$ 6,480,100	\$ 91,980	\$ 6,572,080
Common Stock											
Issued/(converted)	—	—	—	—	—	—	3,665	—	3,665	—	3,665
Repurchased	—	—	(28)	—	—	—	(420,431)	—	(420,459)	—	(420,459)
Restricted share-based compensation expense	—	—	—	—	—	—	3,481	—	3,481	—	3,481
Dividends paid and accrued	—	—	—	—	—	(16,469)	—	—	(16,469)	—	(16,469)
Stock option expense	—	—	—	—	—	—	14,582	—	14,582	—	14,582
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(127)	(127)
Purchase of ownership interests by minority members	—	—	—	—	—	—	—	—	—	1,093	1,093
Comprehensive income:											
Net income to UHS / noncontrolling interests	193	—	—	—	—	—	218,351	—	218,351	831	219,182
Foreign currency translation adjustments, net of income tax	—	—	—	—	—	—	—	(9,230)	(9,230)	—	(9,230)
Subtotal - comprehensive income	193	—	—	—	—	—	218,351	(9,230)	209,121	831	209,952
Balance, September 30, 2021	<u>\$ 4,886</u>	<u>\$ 66</u>	<u>\$ 732</u>	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ (529,846)</u>	<u>\$ 6,776,168</u>	<u>\$ 26,894</u>	<u>\$ 6,274,021</u>	<u>\$ 93,777</u>	<u>\$ 6,367,798</u>
	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, January 1, 2021	\$ 4,569	\$ 66	\$ 778	\$ 7	\$ 0	\$ (479,503)	\$ 6,747,678	\$ 48,120	\$ 6,317,146	\$ 84,821	\$ 6,401,967
Common Stock											
Issued/(converted)	—	—	5	—	—	—	10,104	—	10,109	—	10,109
Repurchased	—	—	(51)	—	—	—	(788,488)	—	(788,539)	—	(788,539)
Restricted share-based compensation expense	—	—	—	—	—	—	9,583	—	9,583	—	9,583
Dividends paid and accrued	—	—	—	—	—	(50,343)	—	—	(50,343)	—	(50,343)
Stock option expense	—	—	—	—	—	—	44,825	—	44,825	—	44,825
Distributions to noncontrolling interests	(203)	—	—	—	—	—	—	—	—	(5,541)	(5,541)
Purchase of ownership interests by minority members	—	—	—	—	—	—	—	—	—	13,762	13,762
Comprehensive income:											
Net income to UHS / noncontrolling interests	520	—	—	—	—	—	752,466	—	752,466	735	753,201
Foreign currency translation adjustments, net of income tax	—	—	—	—	—	—	—	(21,226)	(21,226)	—	(21,226)
Subtotal - comprehensive income	520	—	—	—	—	—	752,466	(21,226)	731,240	735	731,975
Balance, September 30, 2021	<u>\$ 4,886</u>	<u>\$ 66</u>	<u>\$ 732</u>	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ (529,846)</u>	<u>\$ 6,776,168</u>	<u>\$ 26,894</u>	<u>\$ 6,274,021</u>	<u>\$ 93,777</u>	<u>\$ 6,367,798</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Three and Nine Months ended September 30, 2020
(amounts in thousands, unaudited)

	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, July 1, 2020	\$ 4,287	\$ 66	\$ 777	\$ 7	\$ 0	\$ (479,503)	\$ 6,166,722	\$ 578	\$ 5,688,647	\$ 72,925	\$ 5,761,572
Common Stock											
Issued/(converted)	—	—	—	—	—	—	3,766	—	3,766	—	3,766
Repurchased	—	—	—	—	—	—	(44)	—	(44)	—	(44)
Restricted share-based compensation expense	—	—	—	—	—	—	2,209	—	2,209	—	2,209
Dividends paid	—	—	—	—	—	—	—	—	—	—	—
Stock option expense	—	—	—	—	—	—	12,988	—	12,988	—	12,988
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(6,290)	(6,290)
Purchase of noncontrolling interest	—	—	—	—	—	—	—	—	—	(547)	(547)
Other	—	—	—	—	—	—	—	—	—	3,300	3,300
Comprehensive income:											
Net income to UHS / noncontrolling interests	(110)	—	—	—	—	—	241,279	—	241,279	2,922	244,201
Foreign currency translation adjustments	—	—	—	—	—	—	—	13,943	13,943	—	13,943
Subtotal - comprehensive income	(110)	—	—	—	—	—	241,279	13,943	255,222	2,922	258,144
Balance, September 30, 2020	<u>\$ 4,177</u>	<u>\$ 66</u>	<u>\$ 777</u>	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ (479,503)</u>	<u>\$ 6,426,920</u>	<u>\$ 14,521</u>	<u>\$ 5,962,788</u>	<u>\$ 72,310</u>	<u>\$ 6,035,098</u>
	Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Balance, January 1, 2020	\$ 4,333	\$ 66	\$ 794	\$ 7	\$ 0	\$ (462,159)	\$ 5,933,504	\$ 31,893	\$ 5,504,105	\$ 74,766	\$ 5,578,871
Common Stock											
Issued/(converted)	—	—	3	—	—	—	9,726	—	9,729	—	9,729
Repurchased	—	—	(20)	—	—	—	(200,078)	—	(200,098)	—	(200,098)
Restricted share-based compensation expense	—	—	—	—	—	—	6,958	—	6,958	—	6,958
Dividends paid	—	—	—	—	—	(17,344)	—	—	(17,344)	—	(17,344)
Stock option expense	—	—	—	—	—	—	41,565	—	41,565	—	41,565
Distributions to noncontrolling interests	(500)	—	—	—	—	—	—	—	—	(14,675)	(14,675)
Purchase of noncontrolling interest	—	—	—	—	—	—	—	—	—	(547)	(547)
Other	—	—	—	—	—	—	—	—	—	3,300	3,300
Comprehensive income:											
Net income to UHS / noncontrolling interests	344	—	—	—	—	—	635,245	—	635,245	9,466	644,711
Foreign currency translation adjustments	—	—	—	—	—	—	—	(17,372)	(17,372)	—	(17,372)
Subtotal - comprehensive income	344	—	—	—	—	—	635,245	(17,372)	617,873	9,466	627,339
Balance, September 30, 2020	<u>\$ 4,177</u>	<u>\$ 66</u>	<u>\$ 777</u>	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ (479,503)</u>	<u>\$ 6,426,920</u>	<u>\$ 14,521</u>	<u>\$ 5,962,788</u>	<u>\$ 72,310</u>	<u>\$ 6,035,098</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands, unaudited)

	Nine months ended September 30,	
	2021	2020
Cash Flows from Operating Activities:		
Net income	\$ 753,721	\$ 645,056
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation & amortization	399,850	376,563
(Gain) loss on sale of assets and businesses	(4,803)	2,124
Costs related to extinguishment of debt	16,831	1,365
Stock-based compensation expense	55,548	49,928
Provision for asset impairment	7,195	-
<i>Changes in assets & liabilities, net of effects from acquisitions and dispositions:</i>		
Accounts receivable	(29,079)	45,435
Accrued interest	3,714	(10,526)
Accrued and deferred income taxes	(52,727)	(2,095)
Other working capital accounts	52,616	85,944
Medicare accelerated payments and deferred CARES Act and other grants	(697,393)	878,480
Other assets and deferred charges	(34,038)	1,271
Other	9,607	115,431
Accrued insurance expense, net of commercial premiums paid	140,702	113,571
Payments made in settlement of self-insurance claims	(60,069)	(84,390)
Net cash provided by operating activities	<u>561,675</u>	<u>2,218,157</u>
Cash Flows from Investing Activities:		
Property and equipment additions	(666,025)	(546,656)
Proceeds received from sales of assets and businesses	21,143	7,851
Acquisition of businesses and property	(39,391)	(52,009)
Inflows from foreign exchange contracts that hedge our net U.K. investment	4,261	22,453
Decrease in capital reserves of commercial insurance subsidiary	100	-
Costs incurred for purchase of information technology applications, net of refunds	20,202	(5,345)
Investment in, and advances to, joint ventures and other	-	(997)
Net cash used in investing activities	<u>(659,710)</u>	<u>(574,703)</u>
Cash Flows from Financing Activities:		
Repayments of long-term debt	(3,026,888)	(1,173,590)
Additional borrowings	2,912,374	803,197
Financing costs	(17,967)	(8,256)
Repurchase of common shares	(770,665)	(200,098)
Dividends paid	(50,284)	(17,344)
Issuance of common stock	10,108	9,288
Profit distributions to noncontrolling interests	(5,744)	(15,175)
Purchase of ownership interests by (from) minority members	13,046	(548)
Net cash used in financing activities	<u>(936,020)</u>	<u>(602,526)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(682)	(706)
(Decrease) increase in cash, cash equivalents and restricted cash	(1,034,737)	1,040,222
Cash, cash equivalents and restricted cash, beginning of period	1,279,154	105,667
Cash, cash equivalents and restricted cash, end of period	<u>\$ 244,417</u>	<u>\$ 1,145,889</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 58,719	\$ 93,579
Income taxes paid, net of refunds	\$ 286,376	\$ 208,460
Noncash purchases of property and equipment	\$ 73,428	\$ 76,402

The accompanying notes are an integral part of these condensed consolidated financial statements.

(1) General

This Quarterly Report on Form 10-Q is for the quarterly period ended September 30, 2021. In this Quarterly Report, “we,” “us,” “our” “UHS” and the “Company” refer to Universal Health Services, Inc. and its subsidiaries.

The condensed consolidated interim financial statements include the accounts of our majority-owned subsidiaries and partnerships and limited liability companies controlled by us, or our subsidiaries, as managing general partner or managing member. The condensed consolidated interim financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and reflect all adjustments (consisting only of normal recurring adjustments) which, in our opinion, are necessary to fairly state results for the interim periods. Certain information and footnote disclosures normally included in audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements, significant accounting policies and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020.

The impact of the COVID-19 pandemic, which began during the second half of March, 2020, has had a material effect on our operations and financial results since that time. The COVID-19 vaccination process commenced during the first quarter of 2021. Since that time, through the second quarter of 2021, we had generally experienced a decline in COVID-19 patients as well as a corresponding recovery in non-COVID-19 patient activity. However, during the third quarter of 2021, our facilities generally experienced an increase in COVID-19 patients resulting primarily from the Delta variant. Since the future volumes and severity of COVID-19 patients remain highly uncertain and subject to change, including potential increases in future COVID-19 patient volumes caused by new variants of the virus, as well as related pressures on staffing and wage rates, we are not able to fully quantify the impact that these factors will have on our future financial results. However, developments related to the COVID-19 pandemic could materially affect our financial performance during the remainder of 2021 and into 2022.

We believe that the adverse impact that COVID-19 will have on our future operations and financial results will depend upon many factors, most of which are beyond our capability to control or predict. Our future operations and financial results may be materially impacted by developments related to COVID-19 including, but not limited to, the potential impact on future COVID-19 patient volumes resulting from new variants of the virus, the length of time and severity of the spread of the pandemic; the volume of cancelled or rescheduled elective procedures and the volume of COVID-19 patients treated at our hospitals and other healthcare facilities; measures we are taking to respond to the COVID-19 pandemic; the impact of government and administrative regulation and stimulus on the hospital industry and potential retrospective adjustment in future periods of CARES Act and other grant income revenues recorded as revenues in prior periods; the requirements that federal healthcare program participation is conditional upon facility employees being vaccinated; declining patient volumes and unfavorable changes in payer mix caused by deteriorating macroeconomic conditions (including increases in uninsured and underinsured patients as the result of business closings and layoffs); potential disruptions to our clinical staffing and shortages and disruptions related to supplies required for our employees and patients; and potential increases to expenses related to staffing, supply chain or other expenditures; the impact of our substantial indebtedness and the ability to refinance such indebtedness on acceptable terms, as well as risks associated with disruptions in the financial markets and the business of financial institutions as the result of the COVID-19 pandemic which could impact us from a financing perspective; and changes in general economic conditions nationally and regionally in our markets resulting from the COVID-19 pandemic. Because of these and other uncertainties, we cannot estimate the length or severity of the impact of COVID-19 on our business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, professional and general liability reserves, and potential impairments of goodwill and long-lived assets.

During 2021, we received approximately \$189 million of additional funds from the federal government in connection with the CARES Act, substantially all of which was received during the first quarter of 2021. During the second quarter of 2021, we returned the \$189 million to the appropriate government agencies utilizing a portion of our cash and cash equivalents held on deposit. Therefore, our results of operations for the three and nine-month periods ended September 30, 2021 include no impact from the receipt of those funds.

Also, in March of 2021, we made an early repayment of \$695 million of funds received during 2020 pursuant to the Medicare Accelerated and Advance Payment Program. These funds were returned to the government utilizing a portion of our cash and cash equivalents held on deposit.

(2) Relationship with Universal Health Realty Income Trust and Related Party Transactions

Relationship with Universal Health Realty Income Trust:

At September 30, 2021, we held approximately 5.7% of the outstanding shares of Universal Health Realty Income Trust (the "Trust"). We serve as Advisor to the Trust under an annually renewable advisory agreement, which is scheduled to expire on December 31st of each year, pursuant to the terms of which we conduct the Trust's day-to-day affairs, provide administrative services and present investment opportunities. The advisory agreement was amended and restated effective January 1, 2019. The advisory agreement was renewed by the Trust for 2021 at the same rate as the prior three years, providing for an advisory fee computation at 0.70% of the Trust's average invested real estate assets. We earned an advisory fee from the Trust, which is included in net revenues in the accompanying consolidated statements of income, of approximately \$1.1 and \$1.0 million during the three-month periods ended September 30, 2021 and 2020, respectively, and approximately \$3.3 million and \$3.1 million during the nine-month periods ended September 30, 2021 and 2020, respectively.

In addition, certain of our officers and directors are also officers and/or directors of the Trust. Management believes that it has the ability to exercise significant influence over the Trust, therefore we account for our investment in the Trust using the equity method of accounting.

Our pre-tax share of income from the Trust, which is included in other income, net, on the accompanying consolidated statements of income for each period was approximately \$276,000 and \$300,000 during the three-month periods ended September 30, 2021 and 2020, respectively, and approximately \$977,000 and \$800,000 during the nine-month periods ended September 30, 2021 and 2020, respectively. Included in our share of the Trust's income for the three and nine-month periods ended September 30, 2021 was a gain realized by the Trust in connection with a divestiture of property that was completed during the second quarter of 2021. We received dividends from the Trust amounting to \$552,000 and \$543,000 during the three-month periods ended September 30, 2021 and 2020, respectively, and \$1.7 million and \$1.6 million during the nine-month periods ended September 30, 2021 and 2020, respectively. The carrying value of our investment in the Trust was approximately \$4.7 million and \$5.4 million at September 30, 2021 and December 31, 2020, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of our investment in the Trust was \$43.5 million at September 30, 2021 and \$50.6 million at December 31, 2020, based on the closing price of the Trust's stock on the respective dates.

The Trust commenced operations in 1986 by purchasing certain properties from us and immediately leasing the properties back to our respective subsidiaries. Most of the leases were entered into at the time the Trust commenced operations and provided for initial terms of 13 to 15 years with up to six additional 5-year renewal terms. Each lease also provides for additional or bonus rents as discussed below. The base rents are paid monthly and the bonus rents are computed and paid on a quarterly basis, based upon a computation that compares current quarter revenue to a corresponding quarter in the base year. The leases with those subsidiaries are unconditionally guaranteed by us and are cross-defaulted with one another.

Total rent expense under the operating leases on the three wholly-owned hospital facilities with the Trust was approximately \$4 million during each of the three months ended September 30, 2021 and 2020 and approximately \$13 million and \$12 million during the nine-month periods ended September 30, 2021 and 2020, respectively. Pursuant to the terms of the three wholly-owned hospital leases with the Trust, we have the option to renew the leases at the lease terms described above and below by providing notice to the Trust at least 90 days prior to the termination of the then current term. We also have the right to purchase the respective leased hospitals at their appraised fair market value upon any of the following: (i) at the end of the lease terms or any renewal terms; (ii) upon one month's notice should a change of control of the Trust occur, or; (iii) within the time period as specified in the lease in the event that we provide notice to the Trust of our intent to offer a substitution property/properties in exchange for one (or more) of the three hospital properties leased from the Trust should we be unable to reach an agreement with the Trust on the properties to be substituted. In addition, we have rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or; (ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer.

The table below details the renewal options and terms for each of our three wholly-owned acute care hospital facilities leased from the Trust:

<u>Hospital Name</u>	<u>Annual Minimum Rent</u>	<u>End of Lease Term</u>	<u>Renewal Term (years)</u>
McAllen Medical Center	\$ 5,485,000	December, 2026	5(a)
Wellington Regional Medical Center	\$ 3,030,000	December, 2021	10(b)
Southwest Healthcare System, Inland Valley Campus	\$ 2,648,000	December, 2021	10(c)

(a) We have one 5-year renewal option at existing lease rates (through 2031).

- (b) We have two 5-year renewal options at fair market value lease rates (2022 through 2031). Since our lease renewal option for Wellington Regional Medical Center is fair market value (effective January 1, 2022), the lease rate valuation process is currently in progress and expected to be completed during the fourth quarter of 2021. Subject to completion of a lease agreement at acceptable rates and terms, we intend to renew the lease on this facility upon the December 31, 2021 scheduled expiration of the current lease term.
- (c) We have two 5-year renewal options at fair market value lease rates (2022 through 2031). As previously disclosed, a wholly-owned subsidiary of ours has notified the Trust that it intends to terminate the existing lease on Southwest Healthcare System, Inland Valley Campus, upon the scheduled expiration of the current lease term on December 31, 2021. As permitted pursuant to the terms of the lease, we have the right to purchase the leased property at its appraised fair market value at the end of the existing lease term. However, we have agreed to exchange, and lease back, substitution properties with an aggregate fair market value substantially equal to that of Southwest Healthcare System, Inland Valley Campus, in return for the real estate assets of the Inland Valley Campus. The substitution properties consist of one acute care hospital (including a behavioral health pavilion) and a newly constructed behavioral health hospital. The independent Trustees (of the Board of Trustees) of the Trust, as well as our Board of Directors, have approved these transactions subject to satisfactory completion of definitive agreements, which are in progress. The effective date of the transactions is expected to coincide with the scheduled lease maturity date of December 31, 2021.

In addition, we are the managing majority member in a joint venture that operates a newly constructed, and recently opened, 100-bed behavioral health care facility located in Clive, Iowa. The real property of this facility is leased from the Trust pursuant to the terms of a triple net lease with an initial term of 20 years with five, 10-year renewals.

Certain of our subsidiaries are tenants in several medical office buildings and two free-standing emergency departments (“FEDs”) owned by the Trust or by limited liability companies in which the Trust holds 95% to 100% of the ownership interest.

Other Related Party Transactions:

In December, 2010, our Board of Directors approved the Company’s entering into supplemental life insurance plans and agreements on the lives of Alan B. Miller (our Executive Chairman of the Board) and his wife. As a result of these agreements, as amended in October, 2016, based on actuarial tables and other assumptions, during the life expectancies of the insureds, we would pay approximately \$28 million in premiums, and certain trusts owned by our Executive Chairman of the Board, would pay approximately \$9 million in premiums. Based on the projected premiums mentioned above, and assuming the policies remain in effect until the death of the insureds, we will be entitled to receive death benefit proceeds of no less than approximately \$37 million representing the \$28 million of aggregate premiums paid by us as well as the \$9 million of aggregate premiums paid by the trusts. In connection with these policies, we will pay/we paid approximately \$1.0 million and \$1.1 million, net, in premium payments during the 2021 and 2020 years, respectively.

In August, 2015, Marc D. Miller, our President and Chief Executive Officer and member of our Board of Directors, was appointed to the Board of Directors of Premier, Inc. (“Premier”), a healthcare performance improvement alliance. During 2013, we entered into a new group purchasing organization agreement (“GPO”) with Premier. In conjunction with the GPO agreement, we acquired a minority interest in Premier for a nominal amount. During the fourth quarter of 2013, in connection with the completion of an initial public offering of the stock of Premier, we received cash proceeds for the sale of a portion of our ownership interest in the GPO. Also in connection with this GPO agreement, we received shares of restricted stock of Premier which vested ratably over a seven-year period (2014 through 2020), contingent upon our continued participation and minority ownership interest in the GPO. During the third quarter of 2020, we entered into an agreement with Premier pursuant to the terms of which, among other things, our ownership interest in Premier was converted into shares of Class A Common Stock of Premier. We have elected to retain a portion of the previously vested shares of Premier, the market value of which is included in other assets on our consolidated balance sheet. Based upon the closing price of Premier’s stock on each respective date, the market value of our shares of Premier was approximately \$87 million and \$78 million as of September 30, 2021 and December 31, 2020, respectively. Any change in market value of our Premier shares since December 31, 2020 was recorded as an unrealized gain/loss and included in “Other (income) expense, net” in our condensed consolidated statements of income for the three and nine-month periods ended September 30, 2021. Additionally, Premier declared and paid quarterly cash dividends during each of the three months ended September 30, 2021 and 2020. Our share of the cash dividends amounted to approximately \$400,000 for each of the three-month periods ended September 30, 2021 and 2020 and approximately \$1.3 million and \$400,000 during the nine-month periods ended September 30, 2021 and 2020, respectively. The dividends are included in “Other (income) expense, net” in our condensed consolidated statements of income.

A member of our Board of Directors and member of the Executive Committee and Finance Committee is a partner in Norton Rose Fulbright US LLP, a law firm engaged by us for a variety of legal services. The Board member and his law firm also provide personal legal services to our Executive Chairman and acts as trustee of certain trusts for the benefit of our Executive Chairman and his family.

(3) Other Noncurrent liabilities and Redeemable/Noncontrolling Interests

Other noncurrent liabilities include the long-term portion of our professional and general liability, workers’ compensation reserves, pension and deferred compensation liabilities, payment deferral of the employer’s share of Social Security taxes as provided for by the

Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), and liabilities incurred in connection with split-dollar life insurance agreements on the lives of our chief executive officer and his wife.

As of September 30, 2021, outside owners held noncontrolling, minority ownership interests of: (i) 20% in an acute care facility located in Washington, D.C.; (ii) approximately 9% in an acute care facility located in Texas; (iii) 20%, 30%, 20%, 25% and 48% in five behavioral health care facilities located in Pennsylvania, Ohio, Washington, Missouri and Iowa, respectively, and; (iv) approximately 5% in an acute care facility located in Nevada. The noncontrolling interest and redeemable noncontrolling interest balances of \$94 million and \$5 million, respectively, as of September 30, 2021, consist primarily of the third-party ownership interests in these hospitals.

In connection with the two behavioral health care facilities located in Pennsylvania and Ohio, the minority ownership interests of which are reflected as redeemable noncontrolling interests on our Condensed Consolidated Balance Sheet, the outside owners have “put options” to put their entire ownership interest to us at any time. If exercised, the put option requires us to purchase the minority member’s interest at fair market value.

(4) Treasury

Credit Facilities and Outstanding Debt Securities:

On August 24, 2021, we entered into a seventh amendment to our credit agreement dated as of November 15, 2010, as amended and restated as of September 21, 2012, August 7, 2014 and October 23, 2018, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, and JPMorgan Chase Bank, N.A., as administrative agent, (the “Credit Agreement”). In September, 2021, we entered into an eight amendment to our Credit Agreement which modified the definition of “Adjusted LIBO Rate”.

The seventh amendment to the Credit Agreement, among other things, provided for the following:

- o a \$1.2 billion aggregate amount revolving credit facility, which is scheduled to mature on August 24, 2026, representing an increase of \$200 million over the \$1.0 billion previous commitment. As of September 30, 2021, this facility had no borrowings outstanding and \$1.196 billion of available borrowing capacity, net of \$4 million of outstanding letters of credit;
- o a \$1.7 billion tranche A term loan facility, which is scheduled to mature on August 24, 2026, resulting in a reduction of \$150 million from the \$1.85 billion of borrowings outstanding under the previous tranche A term loan facility, and;
- o repayment of approximately \$488 million of outstanding borrowings and termination of the previous tranche B term loan facility.

Pursuant to the terms of the seventh amendment, the tranche A term loan, which had \$1.70 billion of borrowings outstanding as of September 30, 2021, provides for installment payments of \$10.625 million per quarter beginning on December 31, 2021 through September 30, 2023 and \$21.25 million per quarter beginning on December 31, 2023 through June 30, 2026. The unpaid principal balance at June 30, 2026 is due on the maturity date.

Borrowings under the Credit Agreement bear interest at our election at either (1) the ABR rate which is defined as the rate per annum equal to the greatest of (a) the lender’s prime rate, (b) the weighted average of the federal funds rate, plus 0.5% and (c) one month LIBOR rate plus 1%, in each case, plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 0.25% to 0.625% for revolving credit and term loan A borrowings or (2) the one, three or six month LIBOR rate (at our election), plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 1.25% to 1.625% for revolving credit and term loan A borrowings. As of September 30, 2021, the applicable margins were 0.25% for ABR-based loans and 1.25% for LIBOR-based loans under the revolving credit and term loan A facilities. The revolving credit facility includes a \$125 million sub-limit for letters of credit. The Credit Agreement is secured by certain assets of the Company and our material subsidiaries (which generally excludes asset classes such as substantially all of the patient-related accounts receivable of our acute care hospitals, and certain real estate assets and assets held in joint-ventures with third parties) and is guaranteed by our material subsidiaries.

The Credit Agreement includes a material adverse change clause that must be represented at each draw. The Credit Agreement also contains covenants that include a limitation on sales of assets, mergers, change of ownership, liens and indebtedness, transactions with affiliates, dividends and stock repurchases; and requires compliance with financial covenants including maximum leverage. We are in compliance with all required covenants as of September 30, 2021 and December 31, 2020.

On August 24, 2021, we completed the following via private offerings to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended:

- o Issued \$700 million of aggregate principal amount of 1.65% senior secured notes due on September 1, 2026, and;
- o Issued \$500 million of aggregate principal amount of 2.65% senior secured notes due on January 15, 2032.

In April, 2021, our accounts receivable securitization program (“Securitization”) was amended (the eighth amendment) to: (i) reduce the aggregate borrowing commitments to \$20 million (from \$450 million previously); (ii) slightly reduce the borrowing rates and commitment fee, and; (iii) extend the maturity date to April 25, 2022 (from April, 2021 previously). Substantially all other material terms and conditions remained unchanged. There were no borrowings outstanding pursuant to the Securitization as of September 30, 2021.

On September 13, 2021, we redeemed \$400 million of aggregate principal amount of 5.00% senior secured notes, that were scheduled to mature on June 1, 2026, at 102.50% of the aggregate principal, or \$410 million.

As of September 30, 2021, we had combined aggregate principal of \$2.0 billion from the following senior secured notes:

- o \$700 million aggregate principal amount of 1.65% senior secured notes due in September, 2026 (“2026 Notes”) which were issued on September 13, 2021.
- o \$800 million aggregate principal amount of 2.65% senior secured notes due in October, 2030 (“2030 Notes”) which were issued on September 21, 2020.
- o \$500 million of aggregate principal amount of 2.65% senior secured notes due in January, 2032 (“2032 Notes”) which were issued on September 13, 2021.

In connection with the refinancing transaction completed during the third quarter of 2021, our results of operations for the three and nine-months ended September 30, 2021 include a pre-tax charge of approximately \$17 million incurred for the costs related to the extinguishment of debt. This charge, which is included in other (income) expense, net, consists of the write-off of deferred charges (approximately \$7 million) as well as the make-whole premium paid on the early redemption of the \$400 million, 5% senior notes (approximately \$10 million).

On September 28, 2020, we redeemed the entire \$700 million aggregate principal amount of our previously outstanding 4.75% senior secured notes, which were scheduled to mature in August, 2022, at 100% of the aggregate principal amount.

Interest on the 2026 Notes is payable on March 1st and September 1st until the maturity date of September 1, 2026. Interest on the 2030 Notes payable on April 15th and October 15th, until the maturity date of October 15, 2030. Interest on the 2032 Notes is payable on January 15th and July 15th until the maturity date of January 15, 2032.

The 2026 Notes, 2030 Notes and 2032 Notes (collectively “The Notes”) were offered only to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended (the “Securities Act”). The Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The Notes are guaranteed (the “Guarantees”) on a senior secured basis by all of our existing and future direct and indirect subsidiaries (the “Subsidiary Guarantors”) that guarantee our Credit Agreement, or other first lien obligations or any junior lien obligations. The Notes and the Guarantees are secured by first-priority liens, subject to permitted liens, on certain of the Company’s and the Subsidiary Guarantors’ assets now owned or acquired in the future by the Company or the Subsidiary Guarantors (other than real property, accounts receivable sold pursuant to the Company’s Existing Receivables Facility (as defined in the Indenture pursuant to which The Notes were issued (the “Indenture”)), and certain other excluded assets). The Company’s obligations with respect to The Notes, the obligations of the Subsidiary Guarantors under the Guarantees, and the performance of all of the Company’s and the Subsidiary Guarantors’ other obligations under the Indenture, are secured equally and ratably with the Company’s and the Subsidiary Guarantors’ obligations under the Credit Agreement and The Notes by a perfected first-priority security interest, subject to permitted liens, in the collateral owned by the Company and its Subsidiary Guarantors, whether now owned or hereafter acquired. However, the liens on the collateral securing The Notes and the Guarantees will be released if: (i) The Notes have investment grade ratings; (ii) no default has occurred and is continuing, and; (iii) the liens on the collateral securing all first lien obligations (including the Credit Agreement and The Notes) and any junior lien obligations are released or the collateral under the Credit Agreement, any other first lien obligations and any junior lien obligations is released or no longer required to be pledged. The liens on any collateral securing The Notes and the Guarantees will also be released if the liens on that collateral securing the Credit Agreement, other first lien obligations and any junior lien obligations are released.

In connection with the issuance of The Notes, the Company, the Subsidiary Guarantors and the representatives of the several initial purchasers, entered into Registration Rights Agreements (the “Registration Rights Agreements”), whereby the Company and the Subsidiary Guarantors have agreed, at their expense, to use commercially reasonable best efforts to: (i) cause to be filed a registration statement enabling the holders to exchange The Notes and the Guarantees for registered senior secured notes issued by the Company and guaranteed by the then Subsidiary Guarantors under the Indenture (the “Exchange Securities”), containing terms identical to those of The Notes (except that the Exchange Securities will not be subject to restrictions on transfer or to any increase in annual interest rate for failure to comply with the Registration Rights Agreements); (ii) cause the registration statement to become effective; (iii) complete the exchange offer not later than 60 days after such effective date and in any event on or prior to a target registration date of March 21, 2023 in the case of the 2030 Notes and February 24, 2024 in the case of the 2026 and 2032 Notes, and; (iv) file a shelf registration statement for the resale of The Notes if the exchange offers cannot be effected within the time periods listed above. The

interest rate on The Notes will increase and additional interest thereon will be payable if the Company does not comply with its obligations under the Registration Rights Agreements.

At September 30, 2021, the carrying value and fair value of our debt were each approximately \$3.75 billion. At December 31, 2020, the carrying value and fair value of our debt were each approximately \$3.9 billion. The fair value of our debt was computed based upon quotes received from financial institutions. We consider these to be “level 2” in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with debt instruments.

Cash Flow Hedges:

During the nine-month period ended September 30, 2021 and the year ended December 31, 2020, we had no cash flow hedges outstanding.

Foreign Currency Forward Exchange Contracts:

We use forward exchange contracts to hedge our net investment in foreign operations against movements in exchange rates. The effective portion of the unrealized gains or losses on these contracts is recorded in foreign currency translation adjustment within accumulated other comprehensive income and remains there until either the sale or liquidation of the subsidiary. In connection with these forward exchange contracts, we recorded net cash inflows of \$4 million and \$22 million during the nine-month periods ended September 30, 2021 and 2020, respectively.

Derivatives Hedging Relationships:

The following table presents the effects of our foreign currency foreign exchange contracts on our results of operations for the three and nine-month periods ended September 30, 2021 and 2020 (in thousands):

	Gain/(Loss) recognized in AOCI			
	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<u>Net Investment Hedge relationships</u>				
Foreign currency foreign exchange contracts	\$ 26,152	\$ (28,244)	\$ (4,879)	\$ 15,291

No other gains or losses were recognized in income related to derivatives in Subtopic 815-20.

Cash, Cash Equivalents and Restricted Cash:

Cash, cash equivalents, and restricted cash as reported in the condensed consolidated statements of cash flows are presented separately on our condensed consolidated balance sheets as follows (in thousands):

	September 30, 2021	September 30, 2020	December 31, 2020
Cash and cash equivalents	\$ 189,743	\$ 1,101,230	\$ 1,224,490
Restricted cash and cash equivalents (a)	54,674	44,659	54,664
Total cash, cash equivalents and restricted cash	\$ 244,417	\$ 1,145,889	\$ 1,279,154

(a) Restricted cash and cash equivalents is included in other assets on the accompanying consolidated balance sheet.

(5) Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The following fair value hierarchy classifies the inputs to valuation techniques used to measure fair value into one of three levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These included quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

The following tables present the assets and liabilities recorded at fair value on a recurring basis:

(in thousands)	Balance at September 30, 2021	Balance Sheet Location	Basis of Fair Value Measurement		
			Level 1	Level 2	Level 3
Assets:					
Money market mutual funds	\$ 61,000	Cash and cash equivalents	\$ 61,000		
Money market mutual funds	71,018	Other assets	71,018		
Certificates of deposit	2,200	Other assets		2,200	
Equity securities	86,539	Other assets	86,539		
Deferred compensation assets	46,495	Other assets	46,495		
Foreign currency exchange contracts	846	Other current assets		846	
	<u>\$ 268,098</u>		<u>\$ 265,052</u>	<u>\$ 3,046</u>	<u>-</u>
Liabilities:					
Deferred compensation liability	46,495	Other noncurrent liabilities	46,495		
	<u>\$ 46,495</u>		<u>\$ 46,495</u>	<u>-</u>	<u>-</u>

(in thousands)	Balance at December 31, 2020	Balance Sheet Location	Basis of Fair Value Measurement		
			Level 1	Level 2	Level 3
Assets:					
Term Deposit	\$ 540,000	Cash and cash equivalents		\$ 540,000	
Money market mutual funds	37,100	Cash and cash equivalents	37,100		
Money market mutual funds	70,995	Other assets	70,995		
Certificates of deposit	2,300	Other assets		2,300	
Equity securities	78,367	Other assets	78,367		
Deferred compensation assets	42,044	Other assets	42,044		
Foreign currency exchange contracts	9,987	Other current assets		9,987	
	<u>\$ 780,793</u>		<u>\$ 228,506</u>	<u>\$ 552,287</u>	<u>-</u>
Liabilities:					
Deferred compensation liability	\$ 42,044	Other noncurrent liabilities	\$ 42,044		
	<u>\$ 42,044</u>		<u>\$ 42,044</u>	<u>-</u>	<u>-</u>

The fair value of our money market mutual funds, certificates of deposit and equity securities with a readily determinable fair value are computed based upon quoted market prices in an active market. The fair value of deferred compensation assets and offsetting liability are computed based on market prices in an active market held in a rabbi trust. The fair value of our interest rate swaps are based on quotes from our counter parties. The fair value of our foreign currency exchange contracts is valued using quoted forward exchange rates and spot rates at the reporting date.

As of September 30, 2021, in addition to the \$61 million reflected above in cash and cash equivalents, we had approximately \$61 million of other cash accounts that earn interest at variable rates ranging from .20% to .25%.

As of December 31, 2020, in addition to the \$577 million reflected above in cash and cash equivalents, we had approximately \$581 million of other cash accounts that earn interest at variable rates ranging from .20% to .25%.

(6) Commitments and Contingencies

Professional and General Liability, Workers' Compensation Liability

The vast majority of our subsidiaries are self-insured for professional and general liability exposure up to: (i) \$20 million for professional liability and \$3 million for general liability per occurrence in 2021; (ii) \$10 million and \$3 million per occurrence in 2020 (professional liability claims are also subject to an additional annual aggregate self-insured retention of \$2.5 million for claims in excess of \$10 million for 2020); (iii) \$5 million and \$3 million per occurrence, respectively, during 2019, 2018 and 2017, and; (iv) \$10 million and \$3 million per occurrence, respectively, prior to 2017.

These subsidiaries are provided with several excess policies through commercial insurance carriers which provide for coverage in excess of the applicable per occurrence self-insured retention or underlying policy limits up to \$155 million per occurrence and in the aggregate in 2021, \$250 million per occurrence and in the aggregate for claims incurred from 2014-2020, \$200 million per occurrence and in the aggregate for claims incurred from 2010-2013. In addition, from time to time based upon marketplace conditions, we may elect to purchase additional commercial coverage for certain of our facilities or businesses. Our behavioral health care facilities located in the U.K. have policies through a commercial insurance carrier located in the U.K. that provides for £10 million of professional liability coverage and £25 million of general liability coverage.

As of September 30, 2021, the total accrual for our professional and general liability claims was \$340 million, of which \$74 million was included in current liabilities. As of December 31, 2020, the total accrual for our professional and general liability claims was \$264 million, of which \$74 million was included in current liabilities.

As a result of unfavorable trends experienced during 2020 and 2021, included in our results of operations during the first nine months of 2021, was a \$41 million increase to our reserves for self-insured professional and general liability claims (\$36 million and \$5 million recorded during the second and third quarters of 2021, respectively). During the first nine months of 2021, approximately \$31 million of the reserves increase is included in our acute care hospitals services' results and approximately \$10 million is included in our behavioral health services' results. Included in our results of operations during the first nine months of 2020, was a \$25 million increase to our reserves for self-insured professional and general liability claims (\$20 million and \$5 million recorded during the first and third quarters of 2020, respectively). Approximately \$19 million of the increase to our reserves was included in our acute care hospitals services' results during the first nine months of 2020 and approximately \$6 million was included in our behavioral health services' results.

Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Given our significant self-insured exposure for professional and general liability claims, there can be no assurance that a sharp increase in the number and/or severity of claims asserted against us will not have a material adverse effect on our future results of operations.

As of September 30, 2021, the total accrual for our workers' compensation liability claims was \$110 million, \$55 million of which was included in current liabilities. As of December 31, 2020, the total accrual for our workers' compensation liability claims was \$105 million, \$55 million of which was included in current liabilities.

Although we are unable to predict whether or not our future financial statements will require updates to estimates for our prior year reserves for self-insured general and professional and workers' compensation claims, given the relatively unpredictable nature of these potential liabilities and the factors impacting these reserves, as discussed above, it is reasonably likely that our future financial results may include material adjustments to prior period reserves.

Property Insurance

We have commercial property insurance policies for our properties covering catastrophic losses, including windstorm damage, up to a \$1 billion policy limit, subject to a per occurrence/per location deductible of \$2.5 million as of June 1, 2020. Losses resulting from named windstorms are subject to deductibles between 3% and 5% of the total insurable value of the property. In addition, we have commercial property insurance policies covering catastrophic losses resulting from earthquake and flood damage, each subject to aggregated loss limits (as opposed to per occurrence losses). Commercially insured earthquake coverage for our facilities is subject to various deductibles and limitations including: (i) \$200 million limitation for our facilities located in Nevada; (ii) \$150 million limitation for our facilities located in California; (iii) \$100 million limitation for our facilities located in fault zones within the United States; (iv) \$40 million limitation for our facilities located in Puerto Rico, and; (v) \$250 million limitation for many of our facilities located in other states. Our commercially insured flood coverage has a limit of \$100 million annually. There is also a \$10 million sublimit for one of our facilities located in Houston, Texas, and a \$1 million sublimit for our facilities located in Puerto Rico. Property insurance for our behavioral health facilities located in the U.K. are provided on an all risk basis up to a £1.5 billion policy limit, with coverage caps per location, that includes coverage for real and personal property as well as business interruption losses.

We operate in a highly regulated and litigious industry which subjects us to various claims and lawsuits in the ordinary course of business as well as regulatory proceedings and government investigations. These claims or suits include claims for damages for personal injuries, medical malpractice, commercial/contractual disputes, wrongful restriction of, or interference with, physicians' staff privileges, and employment related claims. In addition, health care companies are subject to investigations and/or actions by various state and federal governmental agencies or those bringing claims on their behalf. Government action has increased with respect to investigations and/or allegations against healthcare providers concerning possible violations of fraud and abuse and false claims statutes as well as compliance with clinical and operational regulations. Currently, and from time to time, we and some of our facilities are subjected to inquiries in the form of subpoenas, Civil Investigative Demands, audits and other document requests from various federal and state agencies. These inquiries can lead to notices and/or actions including repayment obligations from state and federal government agencies associated with potential non-compliance with laws and regulations. Further, the federal False Claims Act allows private individuals to bring lawsuits (qui tam actions) against healthcare providers that submit claims for payments to the government. Various states have also adopted similar statutes. When such a claim is filed, the government will investigate the matter and decide if they are going to intervene in the pending case. These qui tam lawsuits are placed under seal by the court to comply with the False Claims Act's requirements. If the government chooses not to intervene, the private individual(s) can proceed independently on behalf of the government. Health care providers that are found to violate the False Claims Act may be subject to substantial monetary fines/penalties as well as face potential exclusion from participating in government health care programs or be required to comply with Corporate Integrity Agreements as a condition of a settlement of a False Claims Act matter. In September 2014, the Criminal Division of the Department of Justice ("DOJ") announced that all qui tam cases will be shared with their Division to determine if a parallel criminal investigation should be opened. The DOJ has also announced an intention to pursue civil and criminal actions against individuals within a company as well as the corporate entity or entities. In addition, health care facilities are subject to monitoring by state and federal surveyors to ensure compliance with program Conditions of Participation. In the event a facility is found to be out of compliance with a Condition of Participation and unable to remedy the alleged deficiency(s), the facility faces termination from the Medicare and Medicaid programs or compliance with a System Improvement Agreement to remedy deficiencies and ensure compliance.

The laws and regulations governing the healthcare industry are complex covering, among other things, government healthcare participation requirements, licensure, certification and accreditation, privacy of patient information, reimbursement for patient services as well as fraud and abuse compliance. These laws and regulations are constantly evolving and expanding. Further, the Legislation has added additional obligations on healthcare providers to report and refund overpayments by government healthcare programs and authorizes the suspension of Medicare and Medicaid payments "pending an investigation of a credible allegation of fraud." We monitor our business and have developed an ethics and compliance program with respect to these complex laws, rules and regulations. Although we believe our policies, procedures and practices comply with government regulations, there is no assurance that we will not be faced with the sanctions referenced above which include fines, penalties and/or substantial damages, repayment obligations, payment suspensions, licensure revocation, and expulsion from government healthcare programs. Even if we were to ultimately prevail in any action brought against us or our facilities or in responding to any inquiry, such action or inquiry could have a material adverse effect on us.

Certain legal matters are described below:

Litigation:

Shareholder Derivative Cases

In March 2017, a shareholder derivative suit was filed by plaintiff David Heed in the Court of Common Pleas of Philadelphia County. A notice of removal to the United States District Court for the Eastern District of Pennsylvania was filed (Case No. 2:17-cv-01476-LS). Plaintiff filed a motion to remand. In December 2017, the Court denied plaintiff's motion to remand and retained the case in federal court. In May, June and July 2017, additional shareholder derivative suits were filed in the United States District Court for the Eastern District of Pennsylvania. The plaintiffs in those cases are: Central Laborers' Pension Fund (Case No. 17-cv-02187-LS); Firemen's Retirement System of St. Louis (Case No. 17—cv-02317-LS); Waterford Township Police & Fire Retirement System (Case No. 17-cv-02595-LS); and Amalgamated Bank Longview Funds (Case No. 17-cv-03404-LS). The Fireman's Retirement System case has since been voluntarily dismissed. The federal court consolidated all of the cases pending in the Eastern District of Pennsylvania and appointed co-lead plaintiffs and co-lead counsel. Lead Plaintiffs filed a consolidated, amended complaint. We filed a motion to dismiss the amended complaint. In addition, a shareholder derivative case was filed in Chancery Court in Delaware by the Delaware County Employees' Retirement Fund (Case No. 2017-0475-JTL). In December 2017, the Chancery Court stayed this case pending resolution of other contemporaneous matters. Each of these cases have named certain current and former members of the Board of Directors individually and certain officers of Universal Health Services, Inc. as defendants. UHS has also been named as a nominal defendant in these cases. The derivative cases make allegations relating to admission and discharge practices at our behavioral health facilities and board and corporate oversight of these facilities as well as claims relating to the stock trading by the individual defendants and company repurchase of shares during the relevant time period. The cases make claims of breaches of fiduciary duties by the named board members and officers; alleged violations of federal securities laws; and common law causes of action against the individual defendants including unjust enrichment, corporate waste, abuse of control, constructive fraud and gross mismanagement.

The cases seek monetary damages allegedly incurred by the company; restitution and disgorgement of profits, benefits and other compensation from the individual defendants and various forms of equitable relief relating to corporate governance matters. In August 2019, the court granted our motion to dismiss. Plaintiffs subsequently filed a motion with the court seeking leave to file a second amended complaint. In April 2020, the court denied Plaintiffs motion to file a second amended complaint. Plaintiffs filed an appeal with the 3rd Circuit Court of Appeals. The defendants deny liability and intend to defend these cases vigorously. The parties continued settlement negotiations during the pendency of the appeal and a settlement, which would not have a material impact on our financial statements, has been reached. The court has granted preliminary approval of the settlement and set the matter for a final fairness hearing. We are uncertain as to potential liability or financial exposure, if any, which may be associated with these matters in the event the settlement is not finalized and approved.

In July 2021, a shareholder derivative lawsuit was filed by plaintiff, Robin Knight, in the Chancery Court in Delaware against the members of the Board of Directors of the Company as well as certain officers (C.A. No.: 2021-0581-SG). The Company was named as a nominal defendant. The lawsuit alleges that in March 2020 stock options were awarded with exercise prices that did not reflect the Company's fundamentals and business prospects, and in anticipation of future market rebound resulting in excessive gains. The lawsuit makes claims of breaches of fiduciary duties, waste of corporate assets, and unjust enrichment. The lawsuit seeks monetary damages allegedly incurred by the Company, disgorgement of the March 2020 stock awards as well as any proceeds derived therefrom and unspecified equitable relief. Defendants deny the allegations. We have filed a motion to dismiss the complaint. We are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter.

The George Washington University v. Universal Health Services, Inc., et. al.

In December 2019, The George Washington University ("University") filed a lawsuit in the Superior Court for the District of Columbia against Universal Health Services, Inc. as well as certain subsidiaries and individuals associated with the ownership and management of The George Washington University Hospital ("GW Hospital") in Washington, D.C. (case No. 2019 CA 008019 B). The lawsuit claims that UHS failed to provide sufficient financial compensation to the University under the terms of various agreements entered into in 1997 between the University and UHS for the joint venture ownership of GW Hospital. The lawsuit includes claims for breach of contract, breach of fiduciary duty, and unjust enrichment. We deny liability and intend to defend this matter vigorously. We filed a motion to dismiss the complaint. In June 2020, the Court granted the motion in part dismissing the majority of the claims against UHS. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter.

Disproportionate Share Hospital Payment Matter:

In late September, 2015, many hospitals in Pennsylvania, including certain of our behavioral health care hospitals located in the state, received letters from the Pennsylvania Department of Human Services (the "Department") demanding repayment of allegedly excess Medicaid Disproportionate Share Hospital payments ("DSH"), primarily consisting of managed care payments characterized as DSH payments, for the federal fiscal year ("FFY") 2011 amounting to approximately \$4 million in the aggregate. Since that time, certain of our behavioral health care hospitals in Pennsylvania have received similar requests for repayment for alleged DSH overpayments for FFYs 2012 through 2015. For FFY 2012, the claimed overpayment amounts to approximately \$4 million. For FY 2013, FY 2014 and FY 2015 the initial claimed overpayments and attempted recoupment by the Department were approximately \$7 million, \$8 million and \$7 million, respectively. The Department has agreed to a change in methodology which, upon confirmation of the underlying data being accepted by the Department, could reduce the initial claimed overpayments for FY 2013, FY 2014 and FY 2015 to approximately \$2 million, \$2 million and \$3 million, respectively. We filed administrative appeals for all of our facilities contesting the recoupment efforts for FFYs 2011 through 2015 as we believe the Department's calculation methodology is inaccurate and conflicts with applicable federal and state laws and regulations. The Department has agreed to postpone the recoupment of the state's share for FY 2011 to 2013 until all hospital appeals are resolved but started recoupment of the federal share. For FY 2014 and FY 2015, the Department has initiated the recoupment of the alleged overpayments. Starting in FFY 2016, the first full fiscal year after the January 1, 2015 effective date of Medicaid expansion in Pennsylvania, the Department no longer characterized managed care payments received by the hospitals as DSH payments. We can provide no assurance that we will ultimately be successful in our legal and administrative appeals related to the Department's repayment demands. If our legal and administrative appeals are unsuccessful, our future consolidated results of operations and financial condition could be adversely impacted by these repayments.

Boley, et al. v. UHS, et al.

Former UHS subsidiary facility employees Mary K. Boley, Kandie Sutter, and Phyllis Johnson, individually and on behalf of a putative class of participants in the UHS Retirement Savings Plan (the "Plan"), filed a complaint in the U.S. District Court for the Eastern District of Pennsylvania against UHS, the Board of Directors of UHS, and the "Plan Committee" of UHS (Case No. 2:20-cv-02644). In subsequent amended complaints, Plaintiffs have dropped the Board of Directors and the "Plan Committee" as defendants and added the UHS Retirement Plans Investment Committee as a new defendant. Plaintiffs allege that UHS breached its fiduciary duties under the Employee Retirement Income Security Act ("ERISA") by offering to participants in the Plan overly expensive investment options when less expensive investment options were available in the marketplace; caused participants to pay excessive recordkeeping fees associated with the Plan; breached its duty to monitor appointed fiduciaries and: in the alternative, engaged in a "knowing breach of trust" separate from the alleged violations under ERISA. UHS disputes Plaintiffs' allegations and is actively

defending against Plaintiffs' claims. UHS' motion for partial dismissal of Plaintiffs' claims was denied by the Court. In March 2021, the Court granted Plaintiffs' motion for class certification. The Third Circuit Court of Appeal has agreed to hear an appeal of the trial court's order granting class certification. The case will be stayed in the trial court pending conclusion of the appellate proceedings. We are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter. We maintain commercial insurance coverage for claims of this nature, subject to specified deductibles and limitations.

Other Matters:

Various other suits, claims and investigations, including government subpoenas, arising against, or issued to, us are pending and additional such matters may arise in the future. Management will consider additional disclosure from time to time to the extent it believes such matters may be or become material. The outcome of any current or future litigation or governmental or internal investigations, including the matters described above, cannot be accurately predicted, nor can we predict any resulting penalties, fines or other sanctions that may be imposed at the discretion of federal or state regulatory authorities. We record accruals for such contingencies to the extent that we conclude it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. No estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters described above or that are otherwise pending because the inherently unpredictable nature of legal proceedings may be exacerbated by various factors, including, but not limited to: (i) the damages sought in the proceedings are unsubstantiated or indeterminate; (ii) discovery is not complete; (iii) the matter is in its early stages; (iv) the matters present legal uncertainties; (v) there are significant facts in dispute; (vi) there are a large number of parties, or; (vii) there is a wide range of potential outcomes. It is possible that the outcome of these matters could have a material adverse impact on our future results of operations, financial position, cash flows and, potentially, our reputation.

(7) Segment Reporting

Our reportable operating segments consist of acute care hospital services and behavioral health care services. The "Other" segment column below includes centralized services including, but not limited to, information technology, purchasing, reimbursement, accounting and finance, taxation, legal, advertising and design and construction. The chief operating decision making group for our acute care services and behavioral health care services is comprised of our Chief Executive Officer and President and the Presidents of each operating segment. The Presidents for each operating segment also manage the profitability of each respective segment's various facilities. The operating segments are managed separately because each operating segment represents a business unit that offers different types of healthcare services or operates in different healthcare environments. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2020. The corporate overhead allocations, as reflected below, are utilized for internal reporting purposes and are comprised of each period's projected corporate-level operating expenses (excluding interest expense). The overhead expenses are captured and allocated directly to each segment to the extent possible, and overhead expenses incurred on behalf of both segments are captured and allocated to each segment based upon each segment's respective percentage of total operating expenses.

	Three months ended September 30, 2021			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$ 9,497,975	\$ 2,470,401	\$ -	\$ 11,968,376
Gross outpatient revenues	\$ 5,343,246	\$ 242,976	\$ -	\$ 5,586,222
Total net revenues	\$ 1,822,027	\$ 1,328,293	\$ 5,679	\$ 3,155,999
Income/(loss) before allocation of corporate overhead and income taxes	\$ 208,638	\$ 197,779	\$ (119,527)	\$ 286,890
Allocation of corporate overhead	\$ (58,452)	\$ (43,120)	\$ 101,572	\$ -
Income/(loss) after allocation of corporate overhead and before income taxes	\$ 150,186	\$ 154,659	\$ (17,955)	\$ 286,890
Total assets as of September 30, 2021	\$ 5,295,533	\$ 7,106,832	\$ 444,488	\$ 12,846,853

	Nine months ended September 30, 2021			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$ 27,279,494	\$ 7,471,742	\$ -	\$ 34,751,236
Gross outpatient revenues	\$ 15,281,854	\$ 756,068	\$ -	\$ 16,037,922
Total net revenues	\$ 5,271,000	\$ 4,075,127	\$ 20,739	\$ 9,366,866
Income/(loss) before allocation of corporate overhead and income taxes	\$ 600,419	\$ 753,681	\$ (367,535)	\$ 986,565
Allocation of corporate overhead	\$ (174,786)	\$ (129,169)	\$ 303,955	\$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	\$ 425,633	\$ 624,512	\$ (63,580)	\$ 986,565
Total assets as of September 30, 2021	\$ 5,295,533	\$ 7,106,832	\$ 444,488	\$ 12,846,853

	Three months ended September 30, 2020			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$ 8,137,264	\$ 2,487,568	\$ 0	\$ 10,624,832
Gross outpatient revenues	\$ 4,128,549	\$ 243,600	\$ 0	\$ 4,372,149
Total net revenues	\$ 1,610,003	\$ 1,299,591	\$ 2,947	\$ 2,912,541
Income/(loss) before allocation of corporate overhead and income taxes	\$ 177,606	\$ 252,532	\$ (106,874)	\$ 323,264
Allocation of corporate overhead	\$ (55,980)	\$ (42,667)	\$ 98,647	\$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	\$ 121,626	\$ 209,865	\$ (8,227)	\$ 323,264
Total assets as of September 30, 2020	\$ 4,666,917	\$ 6,898,757	\$ 1,410,084	\$ 12,975,758

	Nine months ended September 30, 2020			
	Acute Care Hospital Services	Behavioral Health Services (a)	Other	Total Consolidated
	(Amounts in thousands)			
Gross inpatient revenues	\$ 22,695,513	\$ 7,298,466	\$ 0	\$ 29,993,979
Gross outpatient revenues	\$ 12,204,970	\$ 719,513	\$ 0	\$ 12,924,483
Total net revenues	\$ 4,598,558	\$ 3,864,823	\$ 8,581	\$ 8,471,962
Income/(loss) before allocation of corporate overhead and income taxes	\$ 464,139	\$ 746,980	\$ (361,414)	\$ 849,705
Allocation of corporate overhead	\$ (167,936)	\$ (128,147)	\$ 296,083	\$ 0
Income/(loss) after allocation of corporate overhead and before income taxes	\$ 296,203	\$ 618,833	\$ (65,331)	\$ 849,705
Total assets as of September 30, 2020	\$ 4,666,917	\$ 6,898,757	\$ 1,410,084	\$ 12,975,758

- (a) Includes net revenues generated from our behavioral health care facilities located in the U.K. amounting to approximately \$174 million and \$155 million for the three-month periods ended September 30, 2021 and 2020, respectively, and approximately \$511 million and \$429 million for the nine-month periods ended September 30, 2021 and 2020, respectively. Total assets at our U.K. behavioral health care facilities were approximately \$1.338 billion and \$1.257 billion as of September 30, 2021 and 2020, respectively.

(8) Earnings Per Share Data (“EPS”) and Stock Based Compensation

Basic earnings per share are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are based on the weighted average number of common shares outstanding during the period adjusted to give effect to common stock equivalents.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Basic and Diluted:				
Net income attributable to UHS	\$ 218,351	\$ 241,279	\$ 752,466	\$ 635,245
Less: Net income attributable to unvested restricted share grants	(396)	(790)	(1,609)	(1,987)
Net income attributable to UHS – basic and diluted	\$ 217,955	\$ 240,489	\$ 750,857	\$ 633,258
Weighted average number of common shares - basic	82,262	84,672	83,756	85,172
Net effect of dilutive stock options and grants based on the treasury stock method	1,411	575	1,275	415
Weighted average number of common shares and equivalents - diluted	83,673	85,247	85,031	85,587
Earnings per basic share attributable to UHS:	\$ 2.65	\$ 2.84	\$ 8.96	\$ 7.44
Earnings per diluted share attributable to UHS:	\$ 2.60	\$ 2.82	\$ 8.83	\$ 7.40

The “Net effect of dilutive stock options and grants based on the treasury stock method”, for all periods presented above, excludes certain outstanding stock options applicable to each period since the effect would have been anti-dilutive. The excluded weighted-average stock options totaled 4.1 million for the three months ended September 30, 2021 and 4.3 million for the nine months ended September 30, 2021. The excluded weighted-average stock options totaled 7.1 million for the three months ended September 30, 2020 and 6.7 million for the nine months ended September 30, 2020. All classes of our common stock have the same dividend rights.

Stock-Based Compensation:

During the three-month periods ended September 30, 2021 and 2020, pre-tax compensation cost of \$14.6 million and \$13.0 million, respectively, was recognized related to outstanding stock options. During the nine-month periods ended September 30, 2021 and 2020, pre-tax compensation costs of \$44.8 million and \$41.6 million, respectively, was recognized related to outstanding stock options. In addition, during the three-month periods ended September 30, 2021 and 2020, pre-tax compensation cost of approximately \$3.5 million and \$2.5 million, respectively, was recognized related to restricted stock awards and units. During the nine-month periods ended September 30, 2021 and 2020, pre-tax compensation costs of approximately \$9.6 million and \$7.3 million, respectively, was recognized related to restricted stock awards and units. As of September 30, 2021 there was approximately \$144.6 million of unrecognized compensation cost related to unvested options and restricted stock awards and units which is expected to be recognized over the remaining weighted average vesting period of 2.8 years. There were 2,396,402 stock options granted during the first nine months of 2021 (including 406,952 stock options granted at a 10% market price premium) with a weighted-average grant date fair value of \$39.66 per option. There were 150,860 shares of restricted shares and restricted units granted during the first nine months of 2021 with a weighted-average grant date fair value of \$138.80 per share.

The expense associated with stock-based compensation arrangements is a non-cash charge. In the Condensed Consolidated Statements of Cash Flows, stock-based compensation expense is an adjustment to reconcile net income to cash provided by operating activities and aggregated to \$55.5 million and \$49.9 million during the nine-month periods ended September 30, 2021 and 2020.

(9) Dispositions and acquisitions

Subsequent to September 30, 2021, a binding agreement was finalized whereby we agreed to acquire Riverside Medical Clinic Patient Services, L.L.C. (“RMCPs”), which is a physician practice management company located in California. RMCPs provides management services to Riverside Medical Clinic, which is a large, multi-specialty physician practice with more than 170 clinicians who provide care throughout Riverside County, CA. As part of the transaction, we also plan to acquire two ambulatory surgery centers that are owned and operated by RMCPs. The transaction is subject to California state approval.

Nine-month period ended September 30, 2021:

Acquisitions:

During the first nine months of 2021, we spent \$39 million to acquire a 22-bed micro hospital located in Las Vegas, Nevada.

Divestitures:

During the first nine months of 2021, we received \$21 million from the sale of our equity interest in a business.

Nine-month period ended September 30, 2020:

Acquisitions:

During the first nine months of 2020, we spent \$52 million on the acquisition of businesses and property, consisting primarily of the real estate and other assets of a hospital located in Nevada.

Divestitures:

During the first nine months of 2020, we received \$8 million from the sale of assets and businesses.

(10) Dividends

We declared and paid dividends of \$16.4 million, or \$.20 per share, during the third quarter of 2021 and declared and paid dividends of \$50.3 million during the nine-month period ended September 30, 2021. Dividend equivalents, which were applicable to unvested restricted stock units, were accrued during 2021 and will be paid upon vesting of the restricted stock unit. As part of our COVID-19 initiatives, we suspended quarterly dividend payments in the second quarter of 2020 and resumed them in the first quarter of 2021. Dividends of \$17.3 million, or \$.20 per share were declared and paid during the first nine months of 2020 (declared and paid during the first three months of 2020).

(11) Income Taxes

Our effective income tax rates were 23.5% and 24.5% during the three-month periods ended September 30, 2021, and 2020, respectively, and 23.6% and 24.1% during the nine-month periods ended September 30, 2021, and 2020, respectively. The decrease in the effective tax rate during the three-month period ended September 30, 2021, as compared to the comparable quarter of 2020, was primarily due to the \$3 million favorable change in the tax benefit from employee share-based payments as compared to the third quarter of 2020. The decrease in the effective tax rate during the nine-month period ended September 30, 2021, as compared with the same period in 2020, was primarily due to a \$6 million favorable change in the tax benefit from employee share-based payments offset by a \$1 million increase to the foreign provision as compared to the prior year.

The global intangible low-taxed income (“GILTI”) provisions from the Tax Cuts and Jobs Act of 2017 (“the TCJA-17”) require the inclusion of the earnings of certain foreign subsidiaries in excess of an acceptable rate of return on certain assets of the respective subsidiaries in our U.S. tax return for tax years beginning after December 31, 2017. An accounting policy election was made during 2018 to treat taxes related to GILTI as a period cost when the tax is incurred. We recorded a GILTI tax provision of zero for the nine months ended September 30, 2021 and 2020.

As of January 1, 2021, our unrecognized tax benefits were approximately \$2 million. The amount, if recognized, that would favorably affect the effective tax rate is approximately \$2 million. During the nine months ended September 30, 2021, changes to the estimated liabilities for uncertain tax positions (including accrued interest) relating to tax positions taken during prior and current periods did not have a material impact on our financial statements.

We recognize accrued interest and penalties associated with uncertain tax positions as part of the tax provision. As of September 30, 2021, we have less than \$1 million of accrued interest and penalties. The U.S. federal statute of limitations remains open for 2017 and subsequent years. Foreign and U.S. state and local jurisdictions have statutes of limitations generally ranging from 3 to 4 years. The statute of limitations on certain jurisdictions could expire within the next twelve months. It is reasonably possible that the amount of uncertain tax benefits will change during the next 12 months, however, it is anticipated that any such change, if it were to occur, would not have a material impact on our results of operations.

We operate in multiple jurisdictions with varying tax laws. We are subject to audits by any of these taxing authorities. Our tax returns have been examined by the Internal Revenue Service (“IRS”) through the year ended December 31, 2006. We believe that adequate accruals have been provided for federal, foreign and state taxes.

(12) Revenue

The company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Our estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue. However, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense in operating charges.

The performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e.: room, board, ancillary services, level of care), revenue is recognized based upon allocated transaction price. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price. In instances where we determine there are multiple performance obligations across multiple months, the transaction price will be allocated by applying an estimated implicit and explicit rate to gross charges based on the separate performance obligations.

In assessing collectability, we have elected the portfolio approach. This portfolio approach is being used as we have large volume of similar contracts with similar classes of customers. We reasonably expect that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management’s judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payer or group of payers, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

We group our revenues into categories based on payment behaviors. Each component has its own reimbursement structure which allows us to disaggregate the revenue into categories that share the nature and timing of payments. The other patient revenue consists primarily of self-pay, government-funded non-Medicaid, and other.

The following table disaggregates our revenue by major source for the three and nine-month periods ended September 30, 2021 and 2020 (in thousands):

For the three months ended September 30, 2021							
	Acute Care		Behavioral Health		Other	Total	
Medicare	\$ 310,483	17%	\$ 96,219	7%		\$ 406,702	13%
Managed Medicare	280,674	15%	66,249	5%		346,923	11%
Medicaid	136,989	8%	146,281	11%		283,270	9%
Managed Medicaid	176,497	10%	326,789	25%		503,286	16%
Managed Care (HMO and PPOs)	674,396	37%	349,275	26%		1,023,671	32%
UK Revenue	0	0%	173,728	13%		173,728	6%
Other patient revenue and adjustments, net	69,935	4%	117,442	9%		187,377	6%
Other non-patient revenue (a)	173,053	9%	52,310	4%	5,679	231,042	7%
Total Net Revenue	\$ 1,822,027	100%	\$ 1,328,293	100%	\$ 5,679	\$ 3,155,999	100%

For the nine months ended September 30, 2021							
	Acute Care		Behavioral Health		Other	Total	
Medicare	\$ 954,207	18%	\$ 277,438	7%		\$ 1,231,645	13%
Managed Medicare	830,627	16%	185,323	5%		1,015,950	11%
Medicaid	418,335	8%	526,945	13%		945,280	10%
Managed Medicaid	473,256	9%	995,749	24%		1,469,005	16%
Managed Care (HMO and PPOs)	1,862,012	35%	1,070,165	26%		2,932,177	31%
UK Revenue	0	0%	510,614	13%		510,614	5%
Other patient revenue and adjustments, net	248,342	5%	366,669	9%		615,011	7%
Other non-patient revenue (a)	484,221	9%	142,224	3%	20,739	647,184	7%
Total Net Revenue	\$ 5,271,000	100%	\$ 4,075,127	100%	\$ 20,739	\$ 9,366,866	100%

For the three months ended September 30, 2020							
	Acute Care		Behavioral Health		Other	Total	
Medicare	\$ 319,259	20%	\$ 120,691	9%		\$ 439,950	15%
Managed Medicare	234,169	15%	62,618	5%		296,787	10%
Medicaid	160,671	10%	159,756	12%		320,427	11%
Managed Medicaid	126,979	8%	316,683	24%		443,662	15%
Managed Care (HMO and PPOs)	585,333	36%	321,719	25%		907,052	31%
UK Revenue	0	0%	155,323	12%		155,323	5%
Other patient revenue and adjustments, net	56,188	3%	127,322	10%		183,510	6%
Other non-patient revenue (b)	127,404	8%	35,479	3%	2,947	165,830	6%
Total Net Revenue	\$ 1,610,003	100%	\$ 1,299,591	100%	\$ 2,947	\$ 2,912,541	100%

For the nine months ended September 30, 2020							
	Acute Care		Behavioral Health		Other	Total	
Medicare	\$ 909,594	20%	\$ 346,879	9%		\$ 1,256,473	15%
Managed Medicare	638,931	14%	181,835	5%		820,766	10%
Medicaid	420,082	9%	488,864	13%		908,946	11%
Managed Medicaid	358,770	8%	900,105	23%		1,258,875	15%
Managed Care (HMO and PPOs)	1,558,765	34%	955,530	25%		2,514,295	30%
UK Revenue	0	0%	428,795	11%		428,795	5%
Other patient revenue and adjustments, net	198,983	4%	371,517	10%		570,500	7%
Other non-patient revenue (b)	513,433	11%	191,298	5%	8,581	713,312	8%
Total Net Revenue	\$ 4,598,558	100%	\$ 3,864,823	100%	\$ 8,581	\$ 8,471,962	100%

(a) Acute Care includes CARES Act and other grant revenue of \$2 million and \$13 million recorded in the three and nine-months periods ended September 30, 2021, respectively. Behavioral Health includes CARES Act and other grant revenue of \$114,000 and \$2 million recorded in the three and nine-months periods ended September 30, 2021, respectively.

(b) Acute Care includes CARES Act and other grant income of \$4 million and \$161 million recorded in the three and nine-months periods ended September 30, 2020, respectively. Behavioral Health includes the reversal of CARES Act and other grant income of \$9 million and CARES Act and other grant income of \$52 million recorded in the three and nine-months periods ended September 30, 2020, respectively.

As an accounting policy election, we have utilized ASC 958 by analogy to recognize funds received under the CARES Act from the Provider Relief Fund as revenue, given no direct authoritative guidance available to for-profit organizations to recognize revenue for government contributions and grants. CARES Act revenues may be subject to future adjustments based on future changes to statutes.

(13) Lease Accounting

Our operating leases are primarily for real estate, including certain acute care facilities, off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices. Our real estate lease agreements typically have initial terms of five to 10 years. These real estate leases may include one or more options to renew, with renewals that can extend the lease term from five to 10 years. The exercise of lease renewal options is at our sole discretion. When determining the lease term, we included options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Three of our hospital facilities are held under operating leases with Universal Health Realty Income Trust with terms of the leases with respect to two hospital properties expiring in 2021 and the third expiring in 2026 (see Note 2 for additional disclosure). We are also the lessee of the real property of certain facilities from unrelated third parties.

Supplemental cash flow information related to leases for the nine-month periods ended September 30, 2021 and 2020 are as follows (in thousands):

	Nine months ended September 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 88,113	\$ 84,351
Operating cash flows from finance leases	\$ 3,507	\$ 1,431
Financing cash flows from finance leases	\$ 2,315	\$ 1,918
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 20,292	\$ 47,679
Finance leases	\$ 7,690	\$ -

(14) Recent Accounting Standards

In March 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The ASU is intended to provide temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. This guidance was effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact this guidance may have on our consolidated financial statements.

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Company as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Company has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our results of operations, cash flows or financial position.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our principal business is owning and operating, through our subsidiaries, acute care hospitals and outpatient facilities and behavioral health care facilities.

As of September 30, 2021, we owned and/or operated 360 inpatient facilities and 40 outpatient and other facilities including the following located in 38 U.S states, Washington, D.C., the United Kingdom and Puerto Rico:

Acute care facilities located in the U.S.:

- 27 inpatient acute care hospitals;
- 18 free-standing emergency departments, and;
- 6 outpatient centers & 1 surgical hospital.

Behavioral health care facilities (333 inpatient facilities and 15 outpatient facilities):

Located in the U.S.:

- 185 inpatient behavioral health care facilities, and;
- 12 outpatient behavioral health care facilities.

Located in the U.K.:

- 145 inpatient behavioral health care facilities, and;
- 3 outpatient behavioral health care facilities.

Located in Puerto Rico:

- 3 inpatient behavioral health care facilities.

As a percentage of our consolidated net revenues, net revenues from our acute care hospitals, outpatient facilities and commercial health insurer accounted for 58% and 55% during the three-month periods ended September 30, 2021 and 2020, respectively, and 56% and 54% during the nine-month periods ended September 30, 2021 and 2020, respectively. Net revenues from our behavioral health care facilities and commercial health insurer accounted for 42% and 45% of our consolidated net revenues during the three-month periods ended September 30, 2021 and 2020, respectively, and 44% and 46% during the nine-month periods ended September 30, 2021 and 2020, respectively.

Our behavioral health care facilities located in the U.K. generated net revenues of approximately \$174 million and \$155 million during the three-month periods ended September 30, 2021 and 2020, respectively, and \$511 million and \$429 million during the nine-month periods ended September 30, 2021 and 2020, respectively. Total assets at our U.K. behavioral health care facilities were approximately \$1.338 billion as of September 30, 2021 and \$1.334 billion as of December 31, 2020.

Services provided by our hospitals include general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services and/or behavioral health services. We provide capital resources as well as a variety of management services to our facilities, including central purchasing, information services, finance and control systems, facilities planning, physician recruitment services, administrative personnel management, marketing and public relations.

Forward-Looking Statements and Risk Factors

You should carefully review the information contained in this Quarterly Report, and should particularly consider any risk factors that we set forth in our Annual Report on Form 10-K for the year ended December 31, 2020, this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the “SEC”). In this Quarterly Report, we state our beliefs of future events and of our future financial performance. This Quarterly Report contains “forward-looking statements” that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, expectations that regulatory developments or other matters will not have a material adverse effect on our business or financial condition, our competitive position and the effects of competition, the projected growth of the industry in which we operate, and the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of our goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” “appears,” “projects” and similar expressions, as well as statements in future tense, identify forward-looking statements. In evaluating those statements, you should specifically consider various factors, including the risks related to healthcare industry trends and those set forth in *Item 1A. Risk Factors* and *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Forward Looking Statements and Risk Factors* in our Annual Report on Form 10-K for the year ended

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or our good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Such factors include, among other things, the following:

- we are subject to risks associated with public health threats and epidemics, including the health concerns relating to the COVID-19 pandemic. In January 2020, the Centers for Disease Control and Prevention (“CDC”) confirmed the spread of the disease to the United States. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The federal government has declared COVID-19 a national emergency, as many federal and state authorities have implemented aggressive measures to “flatten the curve” of confirmed individuals diagnosed with COVID-19 in an attempt to curtail the spread of the virus and to avoid overwhelming the health care system;
- the impact of the COVID-19 pandemic, which began during the second half of March, 2020, has had a material effect on our operations and financial results since that time. The COVID-19 vaccination process commenced during the first quarter of 2021. Since that time through the second quarter of 2021, we had generally experienced a decline in COVID-19 patients as well as a corresponding recovery in non-COVID patient activity. However, during the third quarter of 2021, our facilities generally experienced an increase in COVID-19 patients resulting primarily from the Delta variant. Since the future volumes and severity of COVID-19 patients remain highly uncertain and subject to change, including potential increases in future COVID-19 patient volumes caused by new variants of the virus, as well as related pressures on staffing and wage rates, we are not able to fully quantify the impact that these factors will have on our future financial results. However, developments related to the COVID-19 pandemic could materially affect our financial performance during the remainder of 2021 and into 2022. Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts on our financial condition and our results of operations as a result of its macroeconomic impact, and many of our known risks described in the *Risk Factors* section of our Annual Report on Form 10-K for the year ended December 31, 2020;
- the Centers for Medicare and Medicaid Services (“CMS”) issued an Interim Final Rule (“IFR”) effective November 5, 2021 mandating COVID-19 vaccinations for all applicable staff at all Medicare and Medicaid certified facilities. Facilities covered by this regulation must establish a policy ensuring all eligible staff have received the first dose of a two-dose COVID-19 vaccine or a one-dose COVID-19 vaccine prior to providing any care, treatment, or other services by December 5, 2021. All eligible staff must have received the necessary shots to be fully vaccinated – either two doses of Pfizer or Moderna or one dose of Johnson & Johnson – by January 4, 2022. The regulation also provides for exemptions based on recognized medical conditions or religious beliefs, observances, or practices. Facilities must develop a similar process or plan for permitting exemptions in alignment with federal law. If facilities fail to comply with the IFR by the deadlines established, they are subject to potential termination from the Medicare and Medicaid program for non-compliance. In addition, the Occupational Safety and Health Administration also issued an Emergency Temporary Standard requiring all businesses with 100 or more employees to be vaccinated by January 4, 2022. Those employees not vaccinated by that date will need to show a negative COVID-19 test weekly and wear a face mask in the workplace. However, healthcare employees at healthcare facilities covered by the CMS IFR will not have the option of weekly COVID-19 testing in lieu of vaccination. Legal challenges to these rules are expected and we cannot predict at this time the potential viability or impact of such litigation. Implementation of these rules could have an impact on staffing at our facilities for those employees that are not vaccinated by January 4, 2022, and associated loss of revenues and increased costs resulting from staffing issues could have a material adverse effect on our financial results;
- the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), a stimulus package signed into law on March 27, 2020, authorizes \$100 billion in grant funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the “PHSSEF”). These funds are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. However, since the expenses and losses will be ultimately measured over the life of the COVID-19 pandemic, potential retrospective unfavorable adjustments in future periods, of funds recorded as revenues in prior periods, could occur. The U.S. Department of Health and Human Services (“HHS”) initially distributed \$30 billion of this funding based on each provider’s share of total Medicare fee-for-service reimbursement in 2019. Subsequently, HHS determined that CARES Act funding (including the \$30 billion already distributed) would be allocated proportional to providers’ share of 2018 net patient revenue. We have received payments from these initial distributions of the PHSSEF as disclosed herein. HHS has indicated that distributions of the remaining \$50 billion will be targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, safety net hospitals and certain Medicaid providers and to reimburse providers for COVID-19

related treatment of uninsured patients. We have received payments from these targeted distributions of the PHSSEF, as disclosed herein. The CARES Act also makes other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advance Payment Program, which made available accelerated payments of Medicare funds in order to increase cash flow to providers. On April 26, 2020, the Centers for Medicare and Medicaid Services (“CMS”) announced it was reevaluating and temporarily suspending the Medicare Accelerated and Advance Payment Program in light of the availability of the PHSSEF and the significant funds available through other programs. We have received accelerated payments under this program during 2020, and returned early all of those funds during the first quarter of 2021, as disclosed herein. The Paycheck Protection Program and Health Care Enhancement Act (the “PPPHCE Act”), a stimulus package signed into law on April 24, 2020, includes additional emergency appropriations for COVID-19 response, including \$75 billion to be distributed to eligible providers through the PHSSEF. A third phase of PHSSEF allocations made \$24.5 billion available for providers who previously received, rejected or accepted PHSSEF payments. Applicants that had not yet received PHSSEF payments of 2 percent of patient revenue were to receive a payment that, when combined with prior payments (if any), equals 2 percent of patient care revenue. Providers that have already received payments of approximately 2 percent of annual revenue from patient care were potentially eligible for an additional payment. Recipients will not be required to repay the government for PHSSEF funds received, provided they comply with HHS defined terms and conditions. On December 27, 2020, the Consolidated Appropriations Act, 2021 (“CAA”) was signed into law. The CAA appropriated an additional \$3 billion to the PHSSEF, codified flexibility for providers to calculate lost revenues, and permitted parent organizations to allocate PHSSEF targeted distributions to subsidiary organizations. The CAA also provides that not less than 85 percent of the unobligated PHSSEF amounts and any future funds recovered from health care providers should be used for additional distributions that consider financial losses and changes in operating expenses in the third or fourth quarters of 2020 and the first quarter of 2021 that are attributable to the coronavirus. The CAA provided additional funding for testing, contact tracing and vaccine administration. Providers receiving payments were required to sign terms and conditions regarding utilization of the payments. Any provider receiving funds in excess of \$10,000 in the aggregate will be required to report data elements to HHS detailing utilization of the payments, and we will be required to file such reports. We, and other providers, will report healthcare related expenses attributable to COVID-19 that have not been reimbursed by another source, which may include general and administrative or healthcare related operating expenses. Funds may also be applied to lost revenues, represented as a negative change in year-over-year net patient care operating income. The deadline for using all Provider Relief Fund payments depends on the date of the payment received period; payments received in the first period of April 10, 2020 to June 30, 2020 were to have been expended by June 30, 2021 and payments received in the fourth period of July 1, 2021 to December 31, 2021 must be expended by December 31, 2022. The American Rescue Plan Act of 2021 (“ARPA”), enacted on March 11, 2021, included funding directed at detecting, diagnosing, tracing, and monitoring COVID-19 infections; establishing community vaccination centers and mobile vaccine units; promoting, distributing, and tracking COVID-19 vaccines; and reimbursing rural hospitals and facilities for healthcare-related expenses and lost revenues attributable to COVID-19. ARPA increased the eligibility for, and amount of, premium tax credits to purchase health coverage through Patient Protection and Affordable Care Act, as amended by the Health and Education Reconciliation Act (collectively, the “Legislation”). Further, ARPA set the Medicaid program’s federal medical assistance percentage (“FMAP”) at 100 percent for amounts expended for COVID-19 vaccines and vaccine administration. ARPA also increases the FMAP by 5 percent for eight calendar quarters to incentivize states to expand their Medicaid programs. Finally, ARPA provides subsidies to cover 100 percent of health insurance premiums under the Consolidated Omnibus Budget Reconciliation Act through September 30, 2021. There is a high degree of uncertainty surrounding the implementation of the CARES Act, the PPPHCE Act, the CAA and ARPA, and the federal government may consider additional stimulus and relief efforts, but we are unable to predict whether additional stimulus measures will be enacted or their impact. There can be no assurance as to the total amount of financial and other types of assistance we will receive under the CARES Act, the PPPHCE Act, the CAA and the ARPA, and it is difficult to predict the impact of such legislation on our operations or how they will affect operations of our competitors. Moreover, we are unable to assess the extent to which anticipated negative impacts on us arising from the COVID-19 pandemic will be offset by amounts or benefits received or to be received under the CARES Act, the PPPHCE Act, the CAA and the ARPA;

- our ability to comply with the existing laws and government regulations, and/or changes in laws and government regulations;
- an increasing number of legislative initiatives have been passed into law that may result in major changes in the health care delivery system on a national or state level. For example, Congress has reduced to \$0 the penalty for failing to maintain health coverage that was part of the original Legislation as part of the Tax Cuts and Jobs Act. President Biden has undertaken and is expected to undertake additional executive actions that will strengthen the Legislation and reverse the policies of the prior administration. To date, the Biden administration has issued executive orders implementing a special enrollment period permitting individuals to enroll in health plans outside of the annual open enrollment period and reexamining policies that may undermine the Legislation or the Medicaid program. The ARPA’s expansion of subsidies to purchase coverage through a Legislation exchange is anticipated to increase exchange enrollment. The Trump

Administration had directed the issuance of final rules (i) enabling the formation of association health plans that would be exempt from certain Legislation requirements such as the provision of essential health benefits, (ii) expanding the availability of short-term, limited duration health insurance, (iii) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level, (iv) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans and (v) incentivizing the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market. The uncertainty resulting from these Executive Branch policies may have led to reduced Exchange enrollment in 2018, 2019 and 2020. It is also anticipated that these policies, to the extent that they remain as implemented, may create additional cost and reimbursement pressures on hospitals, including ours. In addition, there have been numerous political and legal efforts to expand, repeal, replace or modify the Legislation since its enactment, some of which have been successful, in part, in modifying the Legislation, as well as court challenges to the constitutionality of the Legislation. The U.S. Supreme Court rejected the latest such case on June 17, 2021, when the Court held in *California v. Texas* that the plaintiffs lacked standing to challenge the Legislation's requirement to obtain minimum essential health insurance coverage, or the individual mandate. The Court dismissed the case without specifically ruling on the constitutionality of the Legislation. As a result, the Legislation will continue to remain law, in its entirety, likely for the foreseeable future. Any future efforts to challenge, replace or replace the Legislation or expand or substantially amend its provision is unknown. See below in *Sources of Revenue and Health Care Reform* for additional disclosure;

- under the Legislation, hospitals are required to make public a list of their standard charges, and effective January 1, 2019, CMS has required that this disclosure be in machine-readable format and include charges for all hospital items and services and average charges for diagnosis-related groups. On November 27, 2019, CMS published a final rule on "Price Transparency Requirements for Hospitals to Make Standard Charges Public." This rule took effect on January 1, 2021 and requires all hospitals to also make public their payor-specific negotiated rates, minimum negotiated rates, maximum negotiated rates, and cash for all items and services, including individual items and services and service packages, that could be provided by a hospital to a patient. Failure to comply with these requirements may result in daily monetary penalties. On November 2, 2021, CMS released a final rule amending several hospital price transparency policies and increasing the amount of penalties for noncompliance through the use of a scaling factor based on hospital bed count;
- as part of the CAA, Congress passed legislation aimed at preventing or limiting patient balance billing in certain circumstances. The CAA addresses surprise medical bills stemming from emergency services, out-of-network ancillary providers at in-network facilities, and air ambulance carriers. The legislation prohibits surprise billing when out-of-network emergency services or out-of-network services at an in-network facility are provided, unless informed consent is received. In these circumstances providers are prohibited from billing the patient for any amounts that exceed in-network cost-sharing requirements. On July 13, 2021, HHS, the Department of Labor and the Department of the Treasury issued an interim final rule, which begins to implement the legislation. The rule would limit our ability to receive payment for services at usually higher out-of-network rates in certain circumstances and prohibit out-of-network payments in other circumstances;
- possible unfavorable changes in the levels and terms of reimbursement for our charges by third party payers or government based payers, including Medicare or Medicaid in the United States, and government based payers in the United Kingdom;
- our ability to enter into managed care provider agreements on acceptable terms and the ability of our competitors to do the same;
- the outcome of known and unknown litigation, government investigations, false claims act allegations, and liabilities and other claims asserted against us and other matters as disclosed in *Note 6 to the Consolidated Financial Statements - Commitments and Contingencies* and the effects of adverse publicity relating to such matters;
- the unfavorable impact on our business of the deterioration in national, regional and local economic and business conditions, including a worsening of unfavorable credit market conditions;
- competition from other healthcare providers (including physician owned facilities) in certain markets;
- technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare;
- our ability to attract and retain qualified personnel, nurses, physicians and other healthcare professionals and the impact on our labor expenses resulting from a shortage of nurses and other healthcare professionals;
- demographic changes;
- we experienced a cyberattack in September, 2020 that had an adverse effect on our operating results during the fourth quarter of 2020. Although we can provide no assurance or estimation related to the amount of the ultimate insurance

proceeds that we may receive in connection with this incident (\$20 million of insurance proceeds have been received to date), we believe we are entitled to recovery of the majority of the unfavorable economic impact of the cyberattack pursuant to a commercial insurance policy. However, there is a heightened risk of future cybersecurity threats, including ransomware attacks targeting healthcare providers. If successful, future cyberattacks could have a material adverse effect on our business. Any costs that we incur as a result of a data security incident or breach, including costs to update our security protocols to mitigate such an incident or breach could be significant. Any breach or failure in our operational security systems can result in loss of data or an unauthorized disclosure of or access to sensitive or confidential member or protected personal or health information and could result in significant penalties or fines, litigation, loss of customers, significant damage to our reputation and business, and other losses;

- the availability of suitable acquisition and divestiture opportunities and our ability to successfully integrate and improve our acquisitions since failure to achieve expected acquisition benefits from certain of our prior or future acquisitions could result in impairment charges for goodwill and purchased intangibles;
- the impact of severe weather conditions, including the effects of hurricanes and climate change;
- as discussed below in *Sources of Revenue*, we receive revenues from various state and county based programs, including Medicaid in all the states in which we operate (we receive Medicaid revenues in excess of \$100 million annually from each of California, Texas, Nevada, Washington, D.C., Pennsylvania, Illinois, Kentucky and Massachusetts); CMS-approved Medicaid supplemental programs in certain states including Texas, Mississippi, Illinois, Oklahoma, Nevada, Arkansas, California and Indiana, and; state Medicaid disproportionate share hospital payments in certain states including Texas and South Carolina. We are therefore particularly sensitive to potential reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states. We can provide no assurance that reductions to revenues earned pursuant to these programs, and the effect of the COVID-19 pandemic on state budgets, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations;
- our ability to continue to obtain capital on acceptable terms, including borrowed funds, to fund the future growth of our business;
- our inpatient acute care and behavioral health care facilities may experience decreasing admission and length of stay trends;
- our financial statements reflect large amounts due from various commercial and private payers and there can be no assurance that failure of the payers to remit amounts due to us will not have a material adverse effect on our future results of operations;
- the Budget Control Act of 2011 (the “2011 Act”) imposed annual spending limits for most federal agencies and programs aimed at reducing budget deficits by \$917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Select Committee on Deficit Reduction (the “Joint Committee”), which was tasked with making recommendations aimed at reducing future federal budget deficits by an additional \$1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year with a uniform percentage reduction across all Medicare programs. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act. Recent legislation has suspended payment reductions through December 31, 2021 in exchange for extended cuts through 2030. We cannot predict whether Congress will restructure the implemented Medicare payment reductions or what other federal budget deficit reduction initiatives may be proposed by Congress going forward. See below in *2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation – Medicare Sequestration Relief*, for additional disclosure related to the favorable effect the legislative extensions have had/are expected to have on our results of operations during 2020 and 2021;
- uninsured and self-pay patients treated at our acute care facilities unfavorably impact our ability to satisfactorily and timely collect our self-pay patient accounts;
- changes in our business strategies or development plans;
- in June, 2016, the United Kingdom affirmatively voted in a non-binding referendum in favor of the exit of the United Kingdom (“U.K.”) from the European Union (the “Brexit”) and it was approved by vote of the British legislature. On March 29, 2017, the United Kingdom triggered Article 50 of the Lisbon Treaty, formally starting negotiations regarding its exit from the European Union. On January 31, 2020, the U.K. formally exited the European Union. On December 24, 2020, the United Kingdom and the European Union reached a post-Brexit trade and cooperation agreement that created new business and security requirements and preserved the United Kingdom’s tariff- and quota-free access to the European

Union member states. We do not know to what extent Brexit will ultimately impact the business and regulatory environment in the U.K., the European Union, or other countries. Any of these effects of Brexit, and others we cannot anticipate, could harm our business, financial condition and results of operations, and;

- other factors referenced herein or in our other filings with the Securities and Exchange Commission.

Given these uncertainties, risks and assumptions, as outlined above, you are cautioned not to place undue reliance on such forward-looking statements. Our actual results and financial condition could differ materially from those expressed in, or implied by, the forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We assume no obligation to publicly update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. For a summary of our significant accounting policies, please see *Note 1 to the Consolidated Financial Statements* as included in our Annual Report on Form 10-K for the year ended December 31, 2020. We consider our critical accounting policies to be those that require us to make significant judgments and estimates when we prepare our financial statements, including the following:

Revenue Recognition: On January 1, 2018, we adopted, using the modified retrospective approach, ASU 2014-09 and ASU 2016-08, “Revenue from Contracts with Customers (Topic 606)” and “Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, respectively, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The most significant change from the adoption of the new standard relates to our estimation for the allowance for doubtful accounts. Under the previous standards, our estimate for amounts not expected to be collected based upon our historical experience, were reflected as provision for doubtful accounts, included within net revenue. Under the new standard, our estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue, however, not reflected separately as provision for doubtful accounts. Under the new standard, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense in operating charges. The adoption of this ASU in 2018, and amounts recognized as bad debt expense and included in other operating expenses, did not have a material impact on our consolidated financial statements.

See *Note 12 to the Consolidated Financial Statements-Revenue Recognition*, for additional disclosure related to our revenues including a disaggregation of our consolidated net revenues by major source for each of the periods presented herein.

Charity Care, Uninsured Discounts and Other Adjustments to Revenue: Collection of receivables from third-party payers and patients is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill which is the patient’s responsibility, primarily co-payments and deductibles. We estimate our revenue adjustments for implicit price concessions based on general factors such as payer mix, the aging of the receivables and historical collection experience. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts and make adjustments to our allowances as warranted. At our acute care hospitals, third party liability accounts are pursued until all payment and adjustments are posted to the patient account. For those accounts with a patient balance after third party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters.

Historically, a significant portion of the patients treated throughout our portfolio of acute care hospitals are uninsured patients which, in part, has resulted from patients who are employed but do not have health insurance or who have policies with relatively high deductibles. Patients treated at our hospitals for non-elective services, who have gross income of various amounts, dependent upon the state, ranging from 200% to 400% of the federal poverty guidelines, are deemed eligible for charity care. The federal poverty guidelines are established by the federal government and are based on income and family size. Because we do not pursue collection of amounts that qualify as charity care, the transaction price is fully adjusted and there is no impact in our net revenues or in our accounts receivable, net.

A portion of the accounts receivable at our acute care facilities are comprised of Medicaid accounts that are pending approval from third-party payers but we also have smaller amounts due from other miscellaneous payers such as county indigent programs in certain states. Our patient registration process includes an interview of the patient or the patient’s responsible party at the time of registration. At that time, an insurance eligibility determination is made and an insurance plan code is assigned. There are various pre-established insurance profiles in our patient accounting system which determine the expected insurance reimbursement for each patient based on the insurance plan code assigned and the services rendered. Certain patients may be classified as Medicaid pending at registration

based upon a screening evaluation if we are unable to definitively determine if they are currently Medicaid eligible. When a patient is registered as Medicaid-eligible or Medicaid-pending, our patient accounting system records net revenues for services provided to that patient based upon the established Medicaid reimbursement rates, subject to the ultimate disposition of the patient's Medicaid eligibility. When the patient's ultimate eligibility is determined, reclassifications may occur which impacts net revenues in future periods. Although the patient's ultimate eligibility determination may result in adjustments to net revenues, these adjustments did not have a material impact on our results of operations during the three and nine-month periods ended September 30, 2021 or 2020 since our facilities make estimates at each financial reporting period to adjust revenue based on historical collections.

We also provide discounts to uninsured patients (included in "uninsured discounts" amounts below) who do not qualify for Medicaid or charity care. Because we do not pursue collection of amounts classified as uninsured discounts, the transaction price is fully adjusted and there is no impact in our net revenues or in our net accounts receivable. In implementing the discount policy, we first attempt to qualify uninsured patients for governmental programs, charity care or any other discount program. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

The following tables show the amounts recorded at our acute care hospitals for charity care and uninsured discounts, based on charges at established rates, for the three and nine-month periods ended September 30, 2021 and 2020:

Uncompensated care:

Amounts in millions	Three Months Ended				Nine Months Ended			
	September 30, 2021		September 30, 2020		September 30, 2021		September 30, 2020	
	\$	%	\$	%	\$	%	\$	%
Charity care	\$ 189	33%	\$ 148	27%	\$ 535	35%	\$ 511	30%
Uninsured discounts	378	67%	410	73%	987	65%	1,221	70%
Total uncompensated care	\$ 567	100%	\$ 558	100%	\$ 1,522	100%	\$ 1,732	100%

Estimated cost of providing uncompensated care:

The estimated costs of providing uncompensated care as reflected below were based on a calculation which multiplied the percentage of operating expenses for our acute care hospitals to gross charges for those hospitals by the above-mentioned total uncompensated care amounts. The percentage of cost to gross charges is calculated based on the total operating expenses for our acute care facilities divided by gross patient service revenue for those facilities.

Amounts in millions	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	Estimated cost of providing charity care	\$ 20	\$ 17	\$ 57
Estimated cost of providing uninsured discounts related care	41	47	107	142
Estimated cost of providing uncompensated care	\$ 61	\$ 64	\$ 164	\$ 202

Self-Insured/Other Insurance Risks: We provide for self-insured risks including general and professional liability claims, workers' compensation claims and healthcare and dental claims. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimate of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. All relevant information, including our own historical experience is used in estimating the expected amount of claims. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Our estimated self-insured reserves are reviewed and changed, if necessary, at each reporting date and changes are recognized currently as additional expense or as a reduction of expense. In addition, we also: (i) own commercial health insurers headquartered in Reno, Nevada, and Puerto Rico and; (ii) maintain self-insured employee benefits programs for employee healthcare and dental claims. The ultimate costs related to these programs/operations include expenses for claims incurred and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not yet reported. Given our significant insurance-related exposure, there can be no assurance that a sharp increase in the number and/or severity of claims asserted against us will not have a material adverse effect on our future results of operations.

See Note 6 to the Consolidated Financial Statements-Commitments and Contingencies, for additional disclosure related to our professional and general liability, workers' compensation liability and property insurance.

The total accrual for our professional and general liability claims and workers' compensation claims was \$450 million as of September 30, 2021, of which \$129 million is included in current liabilities. The total accrual for our professional and general liability

claims and workers' compensation claims was \$369 million as of December 31, 2020, of which \$129 million is included in current liabilities.

Recent Accounting Standards: For a summary of accounting standards, please see *Note 14 to the Consolidated Financial Statements*, as included herein.

Results of Operations

COVID-19

The impact of the COVID-19 pandemic, which began during the second half of March, 2020, has had a material effect on our operations and financial results since that time. The COVID-19 vaccination process commenced during the first quarter of 2021. Since that time, through the second quarter of 2021, we had generally experienced a decline in COVID-19 patients as well as a corresponding recovery in non-COVID-19 patient activity. However, during the third quarter of 2021, our facilities generally experienced an increase in COVID-19 patients resulting primarily from the Delta variant. Since the future volumes and severity of COVID-19 patients remain highly uncertain and subject to change, including potential increases in future COVID-19 patient volumes caused by new variants of the virus, as well as related pressures on staffing and wage rates, we are not able to fully quantify the impact that these factors will have on our future financial results. However, developments related to the COVID-19 pandemic could materially affect our financial performance during the remainder of 2021 and into 2022.

2021 CARES Act Grants and Medicare Accelerated Payments Receipts/Disbursements:

During 2021, we received approximately \$189 million of additional funds from the federal government in connection with the CARES Act, substantially all of which was received during the first quarter of 2021. During the second quarter of 2021, we returned the \$189 million to the appropriate government agencies utilizing a portion of our cash and cash equivalents held on deposit. Therefore, our results of operations for the three and nine-month periods ended September 30, 2021 include no impact from the receipt of those funds.

Also, and as previously announced earlier this year, in March of 2021 we made an early repayment of \$695 million of funds received during 2020 pursuant to the Medicare Accelerated and Advance Payment Program. These funds were returned to the government utilizing a portion of our cash and cash equivalents held on deposit.

Please see *Sources of Revenue- 2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation* below for additional disclosure regarding funds received and related recognition of revenues in our results of operations in connection with various governmental stimulus grant programs, most notably the CARES Act.

Financial results for the three-month periods ended September 30, 2021 and 2020:

The following table summarizes our results of operations and is used in the discussion below for the three-month periods ended September 30, 2021 and 2020 (dollar amounts in thousands):

	Three months ended September 30, 2021		Three months ended September 30, 2020	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 3,155,999	100.0%	\$ 2,912,541	100.0%
Operating charges:				
Salaries, wages and benefits	1,556,448	49.3%	1,406,348	48.3%
Other operating expenses	754,072	23.9%	666,665	22.9%
Supplies expense	367,834	11.7%	335,409	11.5%
Depreciation and amortization	134,462	4.3%	125,961	4.3%
Lease and rental expense	28,375	0.9%	28,488	1.0%
Subtotal-operating expenses	2,841,191	90.0%	2,562,871	88.0%
Income from operations	314,808	10.0%	349,670	12.0%
Interest expense, net	21,199	0.7%	24,575	0.8%
Other (income) expense, net	6,719	0.2%	1,831	0.1%
Income before income taxes	286,890	9.1%	323,264	11.1%
Provision for income taxes	67,515	2.1%	79,172	2.7%
Net income	219,375	7.0%	244,092	8.4%
Less: Income attributable to noncontrolling interests	1,024	0.0%	2,813	0.1%
Net income attributable to UHS	\$ 218,351	6.9%	\$ 241,279	8.3%

Net revenues increased 8.4%, or \$243 million, to \$3.16 billion during the three-month period ended September 30, 2021 as compared to \$2.91 billion during the third quarter of 2020. The net increase was primarily attributable to: (i) a \$234 million or 8.2% increase in net revenues generated from our acute care hospital services and behavioral health services operated during both periods (which we refer to as “same facility”), and; (ii) \$9 million of other combined net increases.

Income before income taxes (before deduction for income attributable to noncontrolling interests) decreased \$36 million to \$287 million during the three-month period ended September 30, 2021 as compared to \$323 million during the comparable quarter of 2020. The \$36 million net decrease was due to:

- an increase of \$31 million at our acute care facilities, as discussed below in *Acute Care Hospital Services*;
- a decrease of \$55 million at our behavioral health care facilities, as discussed below in *Behavioral Health Services*, and;
- \$12 million of other combined net decreases.

Net income attributable to UHS decreased \$23 million to \$218 million during the three-month period ended September 30, 2021 as compared to \$241 million during the comparable prior year quarter. This decrease was attributable to:

- a \$36 million decrease in income before income taxes, as discussed above;
- an increase of \$2 million due to a decrease in income attributable to noncontrolling interests, and;
- an increase of \$12 million resulting from a decrease in the provision for income taxes due primarily to: (i) the income tax benefit recorded in connection with the \$38 million decrease in pre-tax income, partially offset by; (ii) a \$3 million decrease in the provision for income taxes resulting from ASU 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”).

Financial results for the nine-month periods ended September 30, 2021 and 2020:

The following table summarizes our results of operations and is used in the discussion below for the nine-month periods ended September 30, 2021 and 2020 (dollar amounts in thousands):

	Nine months ended September 30, 2021		Nine months ended September 30, 2020	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 9,366,866	100.0%	\$ 8,471,962	100.0%
Operating charges:				
Salaries, wages and benefits	4,542,156	48.5%	4,147,027	49.0%
Other operating expenses	2,233,590	23.8%	1,982,202	23.4%
Supplies expense	1,052,977	11.2%	936,808	11.1%
Depreciation and amortization	399,850	4.3%	376,563	4.4%
Lease and rental expense	88,848	0.9%	84,967	1.0%
Subtotal-operating expenses	8,317,421	88.8%	7,527,567	88.9%
Income from operations	1,049,445	11.2%	944,395	11.1%
Interest expense, net	64,455	0.7%	86,399	1.0%
Other (income) expense, net	(1,575)	(0.0)%	8,291	0.1%
Income before income taxes	986,565	10.5%	849,705	10.0%
Provision for income taxes	232,844	2.5%	204,649	2.4%
Net income	753,721	8.0%	645,056	7.6%
Less: Income attributable to noncontrolling interests	1,255	0.0%	9,811	0.1%
Net income attributable to UHS	\$ 752,466	8.0%	\$ 635,245	7.5%

Net revenues increased 10.6%, or \$895 million, to \$9.367 billion during the nine-month period ended September 30, 2021 as compared to \$8.47 billion during the first nine months of 2020. The net increase was primarily attributable to: (i) a \$857 million or 10.3% increase in net revenues generated from our acute care hospital services and behavioral health services, on a same facility basis, and; (ii) \$38 million of other combined net increases which includes a \$21 million increase in provider tax assessments which had no impact on net income attributable to UHS as reflected above since the amounts offset between net revenues and other operating expenses. Included in our net revenues during the nine-month period ended September 30, 2020 was approximately \$213 million of net revenues recorded in connection with various governmental stimulus programs, most notably the CARES, Act.

Income before income taxes (before deduction for income attributable to noncontrolling interests) increased \$137 million to \$987 million during the nine-month period ended September 30, 2021 as compared to \$850 million during the comparable period of 2020. The \$137 million net increase was due to:

- an increase of \$136 million at our acute care facilities, as discussed below in *Acute Care Hospital Services*;
- an increase of \$7 million at our behavioral health care facilities, as discussed below in *Behavioral Health Services*, and;
- \$6 million of other combined net decreases.

Net income attributable to UHS increased \$117 million to \$752 million during the nine-month period ended September 30, 2021 as compared to \$635 million during the comparable prior year period. This increase was attributable to:

- a \$137 million increase in income before income taxes, as discussed above;
- an increase of \$7 million due to a decrease in income attributable to noncontrolling interests, and;
- a decrease of \$28 million resulting from an increase in the provision for income taxes due primarily to: (i) the income tax provision recorded in connection with the \$144 million increase in pre-tax income, partially offset by; (ii) a \$7 million decrease in the provision for income taxes resulting from ASU 2016-09.

Increase to self-insured professional and general liability reserves:

Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimates of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies.

As a result of unfavorable trends experienced during 2020 and 2021, included in our results of operations during the first nine months of 2021, was a \$41 million increase to our reserves for self-insured professional and general liability claims (\$36 million and \$5 million recorded during the second and third quarter, respectively). During the first nine months of 2021, approximately \$31 million of the reserves increase is included in our same facility basis acute care hospitals services' results and approximately \$10 million is included in our behavioral health services' results.

Included in our results of operations during the first nine months of 2020, was a \$25 million increase to our reserves for self-insured professional and general liability claims (\$20 million and \$5 million recorded during the first and third quarters of 2020, respectively). Approximately \$19 million of the increase to our reserves was included in our same facility basis acute care hospitals services' results during the first nine months of 2020 and approximately \$6 million was included in our behavioral health services' results.

Acute Care Hospital Services

Same Facility Basis Acute Care Hospital Services

We believe that providing our results on a "Same Facility" basis (which is a non-GAAP measure), which includes the operating results for facilities and businesses operated in both the current year and prior year periods, is helpful to our investors as a measure of our operating performance. Our Same Facility results also neutralize (if applicable) the effect of items that are non-operational in nature including items such as, but not limited to, gains/losses on sales of assets and businesses, impacts of settlements, legal judgments and lawsuits, impairments of long-lived and intangible assets and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods.

Our Same Facility basis results reflected on the table below also exclude from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Variou s State Medicaid Supplemental Payment Programs*. However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Acute Care Hospital Services*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses. To obtain a complete understanding of our financial performance, the Same Facility results should be examined in connection with our net income as determined in accordance with GAAP and as presented in the condensed consolidated financial statements and notes thereto as contained in this Quarterly Report on Form 10-Q.

The following table summarizes the results of operations for our acute care facilities on a same facility basis and is used in the discussion below for the three and nine-month periods ended September 30, 2021 and 2020 (dollar amounts in thousands):

	Three months ended September 30, 2021		Three months ended September 30, 2020		Nine months ended September 30, 2021		Nine months ended September 30, 2020	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 1,792,862	100.0%	\$ 1,585,142	100.0%	\$ 5,178,594	100.0%	\$ 4,528,364	100.0%
Operating charges:								
Salaries, wages and benefits	755,216	42.1%	660,610	41.7%	2,153,046	41.6%	1,909,216	42.2%
Other operating expenses	410,960	22.9%	366,754	23.1%	1,216,277	23.5%	1,086,669	24.0%
Supplies expense	316,238	17.6%	283,829	17.9%	901,827	17.4%	781,778	17.3%
Depreciation and amortization	82,478	4.6%	78,388	4.9%	246,621	4.8%	234,756	5.2%
Lease and rental expense	17,505	1.0%	17,641	1.1%	55,663	1.1%	50,224	1.1%
Subtotal-operating expenses	1,582,397	88.3%	1,407,222	88.8%	4,573,434	88.3%	4,062,643	89.7%
Income from operations	210,465	11.7%	177,920	11.2%	605,160	11.7%	465,721	10.3%
Interest expense, net	255	0.0%	205	0.0%	749	0.0%	1,339	0.0%
Other (income) expense, net	436	0.0%	-	—	436	0.0%	0	—
Income before income taxes	\$ 209,774	11.7%	\$ 177,715	11.2%	\$ 603,975	11.7%	\$ 464,382	10.3%

Three-month periods ended September 30, 2021 and 2020:

Included in our acute care hospital services' revenues during the third quarter of 2020 was approximately \$4 million of net revenues recorded in connection with funds received from various governmental stimulus programs, most notably the CARES Act. During the three-month period ended September 30, 2021, as compared to the comparable prior year quarter, net revenues from our acute care hospital services, on a same facility basis, increased \$208 million, or 13.1% including the governmental stimulus revenues recorded during the third quarter of 2020, and increased \$212 million, or 13.4% excluding the governmental stimulus revenues recorded during the third quarter of 2020.

Income before income taxes (and before income attributable to noncontrolling interests) increased \$32 million, or 18%, amounting to \$210 million, or 11.7% of net revenues during the third quarter of 2021 as compared to \$178 million, or 11.2% of net revenues during the third quarter of 2020.

During the three-month period ended September 30, 2021, excluding the impact of the \$4 million of governmental stimulus program revenues recorded during the third quarter of 2020, net revenue per adjusted admission increased 1.3% while net revenue per adjusted patient day increased 2.7%, as compared to the comparable quarter of 2020. During the three-month period ended September 30, 2021, as compared to the comparable prior year quarter, inpatient admissions to our acute care hospitals increased 9.9% and adjusted admissions (adjusted for outpatient activity) increased 12.4%. Patient days at these facilities increased 8.4% and adjusted patient days increased 10.9% during the three-month period ended September 30, 2021 as compared to the comparable prior year quarter. The average length of inpatient stay at these facilities was 5.3 days and 5.4 days during the three-month periods ended September 30, 2021 and 2020, respectively. The occupancy rate, based on the average available beds at these facilities, was 71% and 67% during the three-month periods ended September 30, 2021 and 2020, respectively.

Patient volumes at our acute care hospitals during the third quarter of 2021 included a continuation of relatively robust non-COVID patient volumes as well as an increase in COVID-related patients as compared to volumes experienced during the second quarter of 2021. The increased COVID-related patient volumes resulted in increased revenues due to the higher acuity and incremental revenues associated with COVID patients. However, unlike previous surges in COVID-related patient volumes, non-COVID patient volumes experienced at our acute care hospitals, including emergency department visits and elective procedures, were generally consistent with pre-pandemic levels.

Nine-month periods ended September 30, 2021 and 2020:

During the nine-month period ended September 30, 2021, as compared to the comparable prior year period, net revenues from our acute care hospital services, on a same facility basis, increased \$650 million, or 14.4%, including the \$161 million of governmental stimulus revenues recorded during the first nine months of 2020, and increased \$811 million, or 18.6%, excluding the governmental stimulus revenues recorded during the first nine months of 2020.

Income before income taxes (and before income attributable to noncontrolling interests) increased \$140 million, or 30.1%, amounting to \$604 million, or 11.7% of net revenues during the first nine months of 2021 as compared to \$464 million, or 10.3% of net revenues during the first nine months of 2020. As mentioned above, included in our same facility basis acute care hospitals services' results during the nine-month periods ended September 30, 2021 and 2020, was approximately \$31 million and \$20 million, respectively, related to increases to our reserves for self-insured professional and general liability claims. In addition, included in our same facility basis acute care hospitals services' results during the first nine months of 2021 is approximately \$25 million of income related to aggregate commercial insurance proceeds received during the second and third quarters (\$15 million and \$10 million, respectively) in

connection with the previously incurred, unfavorable economic impact resulting from the information technology incident that occurred during 2020, and the COVID-19 pandemic.

During the nine-month period ended September 30, 2021, excluding the impact of the \$161 million of governmental stimulus program revenues recorded during the first nine months of 2020, net revenue per adjusted admission increased 10.4% while net revenue per adjusted patient day increased 7.8%, as compared to the comparable period of 2020. During the nine-month period ended September 30, 2021, as compared to the comparable prior year period, inpatient admissions to our acute care hospitals increased 6.7% and adjusted admissions increased 7.3%. Patient days at these facilities increased 9.2% and adjusted patient days increased 9.9% during the nine-month period ended September 30, 2021 as compared to the comparable prior year period. The average length of inpatient stay at these facilities was 5.1 days and 5.0 days during the nine-month periods ended September 30, 2021 and 2020, respectively. The occupancy rate, based on the average available beds at these facilities, was 68% and 62% during the nine-month periods ended September 30, 2021 and 2020, respectively.

All Acute Care Hospitals

The following table summarizes the results of operations for all our acute care operations during the three and nine-month periods ended September 30, 2021 and 2020. These amounts include: (i) our acute care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes, and; (iii) certain other amounts including, if applicable, the results of recently acquired/opened ancillary facilities and businesses. Dollar amounts below are reflected in thousands.

	Three months ended September 30, 2021		Three months ended September 30, 2020		Nine months ended September 30, 2021		Nine months ended September 30, 2020	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 1,822,027	100.0%	\$ 1,610,003	100.0%	\$ 5,271,000	100.0%	\$ 4,598,558	100.0%
Operating charges:								
Salaries, wages and benefits	757,962	41.6%	660,694	41.0%	2,157,060	40.9%	1,909,415	41.5%
Other operating expenses	436,475	24.0%	391,642	24.3%	1,305,544	24.8%	1,156,909	25.2%
Supplies expense	316,950	17.4%	283,827	17.6%	902,654	17.1%	781,776	17.0%
Depreciation and amortization	83,794	4.6%	78,388	4.9%	248,462	4.7%	234,756	5.1%
Lease and rental expense	17,518	1.0%	17,641	1.1%	55,676	1.1%	50,224	1.1%
Subtotal-operating expenses	1,612,699	88.5%	1,432,192	89.0%	4,669,396	88.6%	4,133,080	89.9%
Income from operations	209,328	11.5%	177,811	11.0%	601,604	11.4%	465,478	10.1%
Interest expense, net	255	0.0%	205	0.0%	749	0.0%	1,339	0.0%
Other (income) expense, net	436	0.0%	-	—	436	0.0%	0	—
Income before income taxes	\$ 208,637	11.5%	\$ 177,606	11.0%	\$ 600,419	11.4%	\$ 464,139	10.1%

Three-month periods ended September 30, 2021 and 2020:

During the three-month period ended September 30, 2021, as compared to the comparable prior year quarter, net revenues from our acute care hospital services increased \$212 million, or 13.2% to \$1.82 billion as compared to \$1.61 billion due primarily to the \$208 million, or 13.1% increase in same facility revenues, as discussed above.

Income before income taxes increased \$31 million, or 18%, to \$209 million, or 11.5% of net revenues during the third quarter of 2021, as compared to \$178 million, or 11.0% of net revenues during the third quarter of 2020. The \$31 million increase in income before income taxes from our acute care hospital services resulted from the \$32 million, or 18.0% increase in income before income taxes at our hospitals, on a same facility basis, as discussed above.

Nine-month periods ended September 30, 2021 and 2020:

During the nine-month period ended September 30, 2021, as compared to the comparable prior year period, net revenues from our acute care hospital services increased \$672 million, or 14.6% to \$5.27 billion as compared to \$4.60 billion due primarily to the \$650 million, or 14.4% increase in same facility revenues, as discussed above.

Income before income taxes increased \$136 million, or 29% to \$600 million, or 11.4% of net revenues during the first nine months of 2021, as compared to \$464 million, or 10.1% of net revenues during the first nine months of 2020. The \$136 million increase in income before income taxes from our acute care hospital services resulted primarily from the \$140 million, or 30.1% increase in income before income taxes at our hospitals, on a same facility basis, as discussed above.

Behavioral Health Services

Our Same Facility basis results (which is a non-GAAP measure), which include the operating results for facilities and businesses operated in both the current year and prior year period, neutralize (if applicable) the effect of items that are non-operational in nature

including items such as, but not limited to, gains/losses on sales of assets and businesses, impact of the reserve established in connection with the civil aspects of the government's investigation of certain of our behavioral health care facilities, impacts of settlements, legal judgments and lawsuits, impairments of long-lived and intangible assets and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods. Our Same Facility basis results reflected on the table below also excludes from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Variou s State Medicaid Supplemental Payment Programs*. However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Behavioral Health Care Services*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses. To obtain a complete understanding of our financial performance, the Same Facility results should be examined in connection with our net income as determined in accordance with GAAP and as presented in the condensed consolidated financial statements and notes thereto as contained in this Quarterly Report on Form 10-Q.

The following table summarizes the results of operations for our behavioral health care facilities, on a same facility basis, and is used in the discussions below for the three and nine-month periods ended September 30, 2021 and 2020 (dollar amounts in thousands):

Same Facility—Behavioral Health

	Three months ended September 30, 2021		Three months ended September 30, 2020		Nine months ended September 30, 2021		Nine months ended September 30, 2020	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 1,302,468	100.0%	\$ 1,276,568	100.0%	\$ 4,004,066	100.0%	\$ 3,797,579	100.0%
Operating charges:								
Salaries, wages and benefits	721,949	55.4%	683,567	53.5%	2,133,755	53.3%	2,022,066	53.2%
Other operating expenses	267,878	20.6%	229,862	18.0%	776,087	19.4%	693,724	18.3%
Supplies expense	51,337	3.9%	51,806	4.1%	151,435	3.8%	153,761	4.0%
Depreciation and amortization	45,798	3.5%	43,919	3.4%	136,926	3.4%	129,877	3.4%
Lease and rental expense	10,311	0.8%	9,928	0.8%	31,339	0.8%	31,384	0.8%
Subtotal-operating expenses	1,097,273	84.2%	1,019,082	79.8%	3,229,542	80.7%	3,030,812	79.8%
Income from operations	205,195	15.8%	257,486	20.2%	774,524	19.3%	766,767	20.2%
Interest expense, net	336	0.0%	354	0.0%	1,014	0.0%	1,079	0.0%
Other (income) expense, net	27	0.0%	526	0.0%	435	0.0%	2,337	0.1%
Income before income taxes	\$ 204,832	15.7%	\$ 256,606	20.1%	\$ 773,075	19.3%	\$ 763,351	20.1%

Three-month periods ended September 30, 2021 and 2020:

Included in our behavioral health services' revenues during the third quarter of 2020 was a \$9 million reversal of revenues previously recorded in connection with various governmental stimulus programs, most notably the CARES, Act. During the three-month period ended September 30, 2021, as compared to the comparable prior year quarter, net revenues from our behavioral health services, on a same facility basis, increased \$26 million or 2.0% including the governmental stimulus revenue reversal recorded during the third quarter of 2020, and increased \$17 million or 1.3% excluding the governmental stimulus revenue reversal recorded during the third quarter of 2020.

Income before income taxes (and before income attributable to noncontrolling interests) decreased \$52 million, or 20%, amounting to \$205 million or 15.7% of net revenues during the third quarter of 2021 as compared to \$257 million or 20.1% of net revenues during the third quarter of 2020.

During the three-month period ended September 30, 2021, excluding the impact of the \$9 million of governmental stimulus program revenue reversal recorded during the third quarter of 2020, net revenue per adjusted admission increased 4.2% while net revenue per adjusted patient day increased 3.6%, as compared to the comparable quarter of 2020. During the three-month period ended September 30, 2021, as compared to the comparable prior year quarter, inpatient admissions to our behavioral health care hospitals decreased 2.8% and adjusted admissions decreased 2.7%. Patient days at these facilities decreased 2.1% and adjusted patient days decreased 2.1% during the three-month period ended September 30, 2021 as compared to the comparable prior year quarter. The average length of inpatient stay at these facilities was 13.6 days and 13.5 days during the three-month periods ended September 30, 2021 and 2020, respectively. The occupancy rate, based on the average available beds at these facilities, was 70% and 73% during the three-month periods ended September 30, 2021 and 2020, respectively.

During the third quarter of 2021, patient volumes at our behavioral health care hospitals were pressured by increased COVID-19 infections experienced in many of our markets, as well as clinical staffing shortages caused by the general unfavorable availability of workers in the U.S., as well as pandemic-related staffing challenges experienced at many of our facilities. These staffing pressures, together with COVID-related patient isolations, resulted in temporary bed closures at certain facilities, as well as higher labor costs. The higher labor costs are reflected in salaries, wages and benefits to the degree they relate to our employees and are reflected in other operating expenses to the degree they relate to contract payments to non-employees.

In addition, three of our behavioral health care facilities located in Louisiana and Pennsylvania were damaged and temporarily closed (either entirely or partially) as a result of Hurricane Ida in late August/early September of 2021. Two of these facilities were fully re-opened by the end of September/October, while the other facility is expected to be fully re-opened by mid-November. We estimate that our pre-tax financial results during the third quarter of 2021 were unfavorably impacted by approximately \$10 million as a result of the damage sustained from Hurricane Ida.

Nine-month periods ended September 30, 2021 and 2020:

During the nine-month period ended September 30, 2021, as compared to the comparable prior year quarter, net revenues from our behavioral health services, on a same facility basis, increased \$206 million or 5.4% including the \$52 million of governmental stimulus revenues recorded during the third quarter of 2020, and increased \$258 million or 6.9% excluding the governmental stimulus revenues recorded during the third quarter of 2020.

Income before income taxes (and before income attributable to noncontrolling interests) increased \$10 million, or 1%, amounting to \$773 million or 19.3% of net revenues during the first nine months of 2021 as compared to \$763 million or 20.1% of net revenues during the first nine months of 2020. As discussed below in *Sources of Revenue-Kentucky Hospital Rate Increase Program*, included in our same facility basis behavioral health services' results of operations during the first nine months of 2021, is approximately \$62 million of revenues recorded in connection with the Kentucky Medicaid Managed Care Hospital Rate Increase Program covering the period of July 1, 2020 to June 30, 2021. As also mentioned above, included in our same facility basis behavioral health services' results during the nine-month periods ended September 30, 2021 and 2020, was approximately \$10 million and \$6 million, respectively, related to increases to our reserves for self-insured professional and general liability claims.

During the nine-month period ended September 30, 2021, excluding the impact of the \$52 million of governmental stimulus program revenues recorded during the first nine months of 2020, net revenue per adjusted admission increased 4.7% while net revenue per adjusted patient day increased 6.0%, as compared to the comparable period of 2020. During the nine-month period ended September 30, 2021, as compared to the comparable prior year period, inpatient admissions to our behavioral health care hospitals increased 1.4% and adjusted admissions increased 1.6%. Patient days at these facilities increased 0.1% and adjusted patient days increased 0.3% during the nine-month period ended September 30, 2021 as compared to the comparable prior year period. The average length of inpatient stay at these facilities was 13.5 days and 13.6 days during the nine-month periods ended September 30, 2021 and 2020, respectively. The occupancy rate, based on the average available beds at these facilities, was 71% and 72% during the nine-month periods ended September 30, 2021 and 2020, respectively.

All Behavioral Health Care Facilities

The following table summarizes the results of operations for all our behavioral health care services during the three and nine-month periods ended September 30, 2021 and 2020. These amounts include: (i) our behavioral health care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes, and; (iii) certain other amounts including the results of facilities acquired or opened during the past year (if applicable) as well as the results of certain facilities that were closed or restructured during the past year. Dollar amounts below are reflected in thousands.

	Three months ended September 30, 2021		Three months ended September 30, 2020		Nine months ended September 30, 2021		Nine months ended September 30, 2020	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 1,328,293	100.0%	\$ 1,299,591	100.0%	\$ 4,075,127	100.0%	\$ 3,864,823	100.0%
Operating charges:								
Salaries, wages and benefits	727,137	54.7%	684,575	52.7%	2,144,735	52.6%	2,027,223	52.5%
Other operating expenses	292,794	22.0%	253,779	19.5%	847,780	20.8%	765,006	19.8%
Supplies expense	51,712	3.9%	51,858	4.0%	152,273	3.7%	153,861	4.0%
Depreciation and amortization	47,205	3.6%	45,154	3.5%	140,870	3.5%	134,081	3.5%
Lease and rental expense	10,421	0.8%	10,734	0.8%	31,789	0.8%	34,151	0.9%
Subtotal-operating expenses	1,129,269	85.0%	1,046,100	80.5%	3,317,447	81.4%	3,114,322	80.6%
Income from operations	199,024	15.0%	253,491	19.5%	757,680	18.6%	750,501	19.4%
Interest expense, net	1,218	0.1%	433	0.0%	3,564	0.1%	1,184	0.0%
Other (income) expense, net	27	0.0%	526	0.0%	435	0.0%	2,337	0.1%
Income before income taxes	\$ 197,779	14.9%	\$ 252,532	19.4%	\$ 753,681	18.5%	\$ 746,980	19.3%

Three-month periods ended September 30, 2021 and 2020:

During the three-month period ended September 30, 2021, as compared to the comparable prior year quarter, net revenues generated from our behavioral health services increased \$29 million, or 2.2% due primarily to the above-mentioned \$26 million, or 2.0% increase in net revenues on a same facility basis.

Income before income taxes decreased \$55 million, or 21.7%, to \$198 million or 14.9% of net revenues during the third quarter of 2021, as compared to \$253 million or 19.4% of net revenues during the third quarter of 2020. The decrease in income before income taxes at our behavioral health facilities during the third quarter of 2021, as compared to the compared quarter of 2020, was primarily attributable to the \$52 million, or 20.2% decrease in income before income taxes experienced at our behavioral health facilities on a same facility basis, as discussed above.

Nine-month periods ended September 30, 2021 and 2020:

During the nine-month period ended September 30, 2021, as compared to the comparable prior year period, net revenues generated from our behavioral health services increased \$210 million, or 5.4% due primarily to the above-mentioned \$206 million, or 5.4% increase in net revenues on a same facility basis.

Income before income taxes increased \$7 million, or 0.9%, to \$754 million or 18.5% of net revenues during the first nine months of 2021, as compared to \$747 million or 19.3% of net revenues during the first nine months of 2020. The increase in income before income taxes at our behavioral health facilities during the first nine months of 2021, as compared to the compared period of 2020, was primarily attributable to the \$10 million, or 1.3% increase in income before income taxes experienced at our behavioral health facilities on a same facility basis, as discussed above.

Sources of Revenue

Overview: We receive payments for services rendered from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and directly from patients.

Hospital revenues depend upon inpatient occupancy levels, the medical and ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the charges or negotiated payment rates for such services. Charges and reimbursement rates for inpatient routine services vary depending on the type of services provided (e.g., medical/surgical, intensive care or behavioral health) and the geographic location of the hospital. Inpatient occupancy levels fluctuate for various reasons, many of which are beyond our control. The percentage of patient service revenue attributable to outpatient services has generally increased in recent years, primarily as a result of advances in medical technology that allow more services to be provided on an outpatient basis, as well as increased pressure from Medicare, Medicaid and private insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. We believe that our experience with respect to our increased outpatient levels mirrors the general trend occurring in the health care industry and we are unable to predict the rate of growth and resulting impact on our future revenues.

Patients are generally not responsible for any difference between customary hospital charges and amounts reimbursed for such services under Medicare, Medicaid, some private insurance plans, and managed care plans, but are responsible for services not covered by such plans, exclusions, deductibles or co-insurance features of their coverage. The amount of such exclusions, deductibles and co-insurance has generally been increasing each year. Indications from recent federal and state legislation are that this trend will continue. Collection of amounts due from individuals is typically more difficult than from governmental or business payers which unfavorably impacts the collectability of our patient accounts.

As described below in the section titled *2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation*, the federal government has enacted multiple pieces of legislation to assist healthcare providers during the COVID-19 world-wide pandemic and U.S. National Emergency declaration. We have outlined those legislative changes related to Medicare and Medicaid payment and their estimated impact on our financial results, where estimates are possible.

Sources of Revenues and Health Care Reform: Given increasing budget deficits, the federal government and many states are currently considering additional ways to limit increases in levels of Medicare and Medicaid funding, which could also adversely affect future payments received by our hospitals. In addition, the uncertainty and fiscal pressures placed upon the federal government as a result of, among other things, impacts on state revenue and expenses resulting from the COVID-19 pandemic, economic recovery stimulus packages, responses to natural disasters, and the federal and state budget deficits in general may affect the availability of government funds to provide additional relief in the future. We are unable to predict the effect of future policy changes on our operations.

On March 23, 2010, President Obama signed into law the Legislation. Two primary goals of the Legislation are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses.

The Legislation revises reimbursement under the Medicare and Medicaid programs to emphasize the efficient delivery of high quality care and contains a number of incentives and penalties under these programs to achieve these goals. The Legislation provides for decreases in the annual market basket update for federal fiscal years 2010 through 2019, a productivity offset to the market basket

update beginning October 1, 2011 for Medicare Part B reimbursable items and services and beginning October 1, 2012 for Medicare inpatient hospital services. The Legislation and subsequent revisions provide for reductions to both Medicare DSH and Medicaid DSH payments. The Medicare DSH reductions began in October, 2013 while the Medicaid DSH reductions are scheduled to begin in 2024. The Legislation implemented a value-based purchasing program, which will reward the delivery of efficient care. Conversely, certain facilities will receive reduced reimbursement for failing to meet quality parameters; such hospitals will include those with excessive readmission or hospital-acquired condition rates.

A 2012 U.S. Supreme Court ruling limited the federal government's ability to expand health insurance coverage by holding unconstitutional sections of the Legislation that sought to withdraw federal funding for state noncompliance with certain Medicaid coverage requirements. Pursuant to that decision, the federal government may not penalize states that choose not to participate in the Medicaid expansion by reducing their existing Medicaid funding. Therefore, states can choose to expand or not to expand their Medicaid program without risking the loss of federal Medicaid funding. As a result, many states, including Texas, have not expanded their Medicaid programs without the threat of loss of federal funding. CMS has previously granted section 1115 demonstration waivers providing for work and community engagement requirements for certain Medicaid eligible individuals. CMS has also released guidance to states interested in receiving their Medicaid funding through a block grant mechanism. The Biden administration has signaled its intent to withdraw previously issued section 1115 demonstrations aligned with these policies. However, if implemented, the previously issued section 1115 demonstrations are anticipated to lead to reductions in coverage, and likely increases in uncompensated care, in states where these demonstration waivers are granted.

On December 14, 2018, a Texas Federal District Court deemed the Legislation to be unconstitutional in its entirety. The Court concluded that the Individual Mandate is no longer permissible under Congress's taxing power as a result of the Tax Cut and Jobs Act of 2017 ("TCJA") reducing the individual mandate's tax to \$0 (i.e., it no longer produces revenue, which is an essential feature of a tax), rendering the Legislation unconstitutional. The court also held that because the individual mandate is "essential" to the Legislation and is inseverable from the rest of the law, the entire Legislation is unconstitutional. Because the court issued a declaratory judgment and did not enjoin the law, the Legislation remained in place pending its appeal. The District Court for the Northern District of Texas ruling was appealed to the U.S. Court of Appeals for the Fifth Circuit. On December 18, 2019, the Fifth Circuit Court of Appeals' three-judge panel voted 2-1 to strike down the Legislation individual mandate as unconstitutional. The Fifth Circuit Court also sent the case back to the Texas district court to determine which Legislation provisions should be stricken with the mandate or whether the entire Legislation is unconstitutional. On March 2, 2020, the U.S. Supreme Court agreed to hear, during the 2020-2021 term, two consolidated cases, filed by the State of California and the United States House of Representatives, asking the U.S. Supreme Court to review the ruling by the Fifth Circuit Court of Appeals. Oral argument was heard on November 10, 2020, and on June 17, 2021, the U.S. Supreme Court issued an opinion holding 7-2 that a group of states and individuals lacked standing to challenge the constitutionality of the Affordable Care Act ("ACA"). The Court did not reach the plaintiffs' merits arguments, which specifically challenged the constitutionality of the ACA's individual mandate and the entirety of the ACA itself. As a result, the ACA will continue to be law, and HHS and its respective agencies will continue to enforce regulations implementing the law.

The various provisions in the Legislation that directly or indirectly affect Medicare and Medicaid reimbursement are scheduled to take effect over a number of years. The impact of the Legislation on healthcare providers will be subject to implementing regulations, interpretive guidance and possible future legislation or legal challenges. Certain Legislation provisions, such as that creating the Medicare Shared Savings Program creates uncertainty in how healthcare may be reimbursed by federal programs in the future. Thus, we cannot predict the impact of the Legislation on our future reimbursement at this time and we can provide no assurance that the Legislation will not have a material adverse effect on our future results of operations.

The Legislation also contained provisions aimed at reducing fraud and abuse in healthcare. The Legislation amends several existing laws, including the federal Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. While Congress had previously revised the intent requirement of the Anti-Kickback Statute to provide that a person is not required to "have actual knowledge or specific intent to commit a violation of" the Anti-Kickback Statute in order to be found in violation of such law, the Legislation also provides that any claims for items or services that violate the Anti-Kickback Statute are also considered false claims for purposes of the federal civil False Claims Act. The Legislation provides that a healthcare provider that retains an overpayment in excess of 60 days is subject to the federal civil False Claims Act. The Legislation also expands the Recovery Audit Contractor program to Medicaid. These amendments also make it easier for severe fines and penalties to be imposed on healthcare providers that violate applicable laws and regulations.

We have partnered with local physicians in the ownership of certain of our facilities. These investments have been permitted under an exception to the physician self-referral law. The Legislation permits existing physician investments in a hospital to continue under a "grandfather" clause if the arrangement satisfies certain requirements and restrictions, but physicians are prohibited from increasing the aggregate percentage of their ownership in the hospital. The Legislation also imposes certain compliance and disclosure requirements upon existing physician-owned hospitals and restricts the ability of physician-owned hospitals to expand the capacity of their facilities. As discussed below, should the Legislation be repealed in its entirety, this aspect of the Legislation would also be repealed restoring physician ownership of hospitals and expansion right to its position and practice as it existed prior to the Legislation.

The impact of the Legislation on each of our hospitals may vary. Because Legislation provisions are effective at various times over the next several years, we anticipate that many of the provisions in the Legislation may be subject to further revision. Initiatives to repeal the Legislation, in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been persistent. The ultimate outcomes of legislative attempts to repeal or amend the Legislation and legal challenges to the Legislation are unknown. Legislation has already been enacted that eliminated the individual mandate penalty, effective January 1, 2019, related to the obligation to obtain health insurance that was part of the original Legislation. In addition, Congress previously considered legislation that would, in material part: (i) eliminate the large employer mandate to offer health insurance coverage to full-time employees; (ii) permit insurers to impose a surcharge up to 30 percent on individuals who go uninsured for more than two months and then purchase coverage; (iii) provide tax credits towards the purchase of health insurance, with a phase-out of tax credits accordingly to income level; (iv) expand health savings accounts; (v) impose a per capita cap on federal funding of state Medicaid programs, or, if elected by a state, transition federal funding to block grants, and; (vi) permit states to seek a waiver of certain federal requirements that would allow such state to define essential health benefits differently from federal standards and that would allow certain commercial health plans to take health status, including pre-existing conditions, into account in setting premiums.

In addition to legislative changes, the Legislation can be significantly impacted by executive branch actions. President Biden is expected to undertake executive actions that will strengthen the Legislation and may reverse the policies of the prior administration. The Trump Administration had directed the issuance of final rules (i) enabling the formation of health plans that would be exempt from certain Legislation essential health benefits requirements; (ii) expanding the availability of short-term, limited duration health insurance; (iii) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (iv) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; and (vi) incentivizing the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market. The uncertainty resulting from these Executive Branch policies led to reduced Exchange enrollment in 2018, 2019 and 2020. To date, the Biden administration has issued executive orders implementing a special enrollment period permitting individuals to enroll in health plans outside of the annual open enrollment period and reexamining policies that may undermine the ACA or the Medicaid program. The ARPA's expansion of subsidies to purchase coverage through an exchange is anticipated to increase exchange enrollment. The recent and ongoing COVID-19 pandemic and related U.S. National Emergency declaration may significantly increase the number of uninsured patients treated at our facilities extending beyond the most recent CBO published estimates due to increased unemployment and loss of group health plan health insurance coverage. It is also anticipated that these policies may create additional cost and reimbursement pressures on hospitals.

It remains unclear what portions of the Legislation may remain, or whether any replacement or alternative programs may be created by any future legislation. Any such future repeal or replacement may have significant impact on the reimbursement for healthcare services generally, and may create reimbursement for services competing with the services offered by our hospitals. Accordingly, there can be no assurance that the adoption of any future federal or state healthcare reform legislation will not have a negative financial impact on our hospitals, including their ability to compete with alternative healthcare services funded by such potential legislation, or for our hospitals to receive payment for services.

For additional disclosure related to our revenues including a disaggregation of our consolidated net revenues by major source for each of the periods presented herein, please see *Note 12 to the Consolidated Financial Statements-Revenue*.

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons and persons with end-stage renal disease. All of our acute care hospitals and many of our behavioral health centers are certified as providers of Medicare services by the appropriate governmental authorities. Amounts received under the Medicare program are generally significantly less than a hospital's customary charges for services provided. Since a substantial portion of our revenues will come from patients under the Medicare program, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in this program.

Under the Medicare program, for inpatient services, our general acute care hospitals receive reimbursement under the inpatient prospective payment system ("IPPS"). Under the IPPS, hospitals are paid a predetermined fixed payment amount for each hospital discharge. The fixed payment amount is based upon each patient's Medicare severity diagnosis related group ("MS-DRG"). Every MS-DRG is assigned a payment rate based upon the estimated intensity of hospital resources necessary to treat the average patient with that particular diagnosis. The MS-DRG payment rates are based upon historical national average costs and do not consider the actual costs incurred by a hospital in providing care. This MS-DRG assignment also affects the predetermined capital rate paid with each MS-DRG. The MS-DRG and capital payment rates are adjusted annually by the predetermined geographic adjustment factor for the geographic region in which a particular hospital is located and are weighted based upon a statistically normal distribution of severity. While we generally will not receive payment from Medicare for inpatient services, other than the MS-DRG payment, a hospital may qualify for an "outlier" payment if a particular patient's treatment costs are extraordinarily high and exceed a specified threshold. MS-DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The index used to adjust the MS-DRG rates, known as the "hospital market basket index," gives consideration to the inflation experienced by hospitals

in purchasing goods and services. Generally, however, the percentage increases in the MS-DRG payments have been lower than the projected increase in the cost of goods and services purchased by hospitals.

In August, 2021, CMS published its IPPS 2022 final payment rule which provides for a 2.7% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments, and adjustments mandated by the Legislation are considered, without consideration for the required Medicare DSH payments changes and increase to the Medicare Outlier threshold, the overall final increase in IPPS payments is approximately 2.5%. Including DSH payments and certain other adjustments, we estimate our overall increase from the final IPPS 2022 rule (covering the period of October 1, 2021 through September 30, 2022) will approximate 1.5%. This projected impact from the IPPS 2022 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result of the American Taxpayer Relief Act of 2012 (“ATRA”), as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below.

In September, 2020, CMS published its IPPS 2021 final payment rule which provides for a 2.4% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments, and adjustments mandated by the Legislation are considered, without consideration for the required Medicare DSH payments changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 1.8%. Including DSH payments and certain other adjustments, we estimate our overall increase from the final IPPS 2021 rule (covering the period of October 1, 2020 through September 30, 2021) will approximate 2.3%. This projected impact from the IPPS 2021 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result of ATRA, as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018.

In the final rule, CMS will require hospitals to report certain market-based payment rate information for Medicare Advantage organizations on their Medicare cost report for cost reporting periods ending on or after January 1, 2021, to be used in a potential change to the methodology for calculating the IPPS MS-DRG relative weights to reflect relative market-based pricing, beginning in FY 2024.

In August, 2019, CMS published its IPPS 2020 final payment rule which provides for a 3.0% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments, and adjustments mandated by the Legislation are considered, without consideration for the required Medicare DSH payments changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 2.8%. Including DSH payments and certain other adjustments, we estimate our overall increase from the final IPPS 2020 rule (covering the period of October 1, 2019 through September 30, 2020) will approximate 2.1%. This projected impact from the IPPS 2020 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result ATRA, as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below. CMS completed its full phase-in to use uncompensated care data from the 2015 Worksheet S-10 hospital cost reports to allocate approximately \$8.5 billion in the DSH Uncompensated Care Pool.

In June, 2019, the Supreme Court of the United States issued a decision favorable to hospitals impacting prior year Medicare DSH payments (*Azar v. Allina Health Services*, No. 17-1484 (U.S. Jun. 3, 2019)). In *Allina*, the hospitals challenged the Medicare DSH adjustments for federal fiscal year 2012, specifically challenging CMS’s decision to include inpatient hospital days attributable to Medicare Part C enrollee patients in the numerator and denominator of the Medicare/SSI fraction used to calculate a hospital’s DSH payments. This ruling addresses CMS’s attempts to impose the policy espoused in its vacated 2004 rulemaking to a fiscal year in the 2004–2013 time period without using notice-and-comment rulemaking. This decision should require CMS to recalculate hospitals’ DSH Medicare/SSI fractions, with Medicare Part C days excluded, for at least federal fiscal year 2012, but likely federal fiscal years 2005 through 2013. In August, 2020, CMS issued a rule that proposed to retroactively negate the effects of the aforementioned Supreme Court decision, which rule has yet to be finalized. Although we can provide no assurance that we will ultimately receive additional funds, we estimate that the favorable impact of this court ruling on certain prior year hospital Medicare DSH payments could range between \$18 million to \$28 million in the aggregate.

The 2011 Act included the imposition of annual spending limits for most federal agencies and programs aimed at reducing budget deficits by \$917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Committee, which was responsible for developing recommendations aimed at reducing future federal budget deficits by an additional \$1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year. Recent legislation suspended payment reductions through December 31, 2021, in exchange for extended cuts through 2030.

Inpatient services furnished by psychiatric hospitals under the Medicare program are paid under a Psychiatric Prospective Payment System (“Psych PPS”). Medicare payments to psychiatric hospitals are based on a prospective per diem rate with adjustments to

account for certain facility and patient characteristics. The Psych PPS also contains provisions for outlier payments and an adjustment to a psychiatric hospital's base payment if it maintains a full-service emergency department.

In July, 2021, CMS published its Psych PPS final rule for the federal fiscal year 2022. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 2.2% compared to federal fiscal year 2021. This amount includes the effect of the 2.0% net market basket update which reflects the offset of a 0.7% productivity adjustment.

In July, 2020, CMS published its Psych PPS final rule for the federal fiscal year 2021. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 2.2% compared to federal fiscal year 2020. This amount includes the effect of the 2.2% market basket update.

In July, 2019, CMS published its Psych PPS final rule for the federal fiscal year 2020. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 1.7% compared to federal fiscal year 2019. This amount includes the effect of the 2.9% market basket update less a 0.75% adjustment as required by the ACA and a 0.4% productivity adjustment.

CMS's calendar year 2018 final OPSS rule, issued on November 13, 2017, substantially reduced Medicare Part B reimbursement for 340B Program drugs paid to hospitals. Beginning January 1, 2018, CMS reimbursement for certain separately payable drugs or biologicals that are acquired through the 340B Program by a hospital paid under the OPSS (and not excepted from the payment adjustment policy) is the average sales price of the drug or biological minus 22.5 percent, an effective reduction of 26.89% in payments for 340B program drugs. In December, 2018, the U.S. District Court for the District of Columbia ruled that HHS did not have statutory authority to implement the 2018 Medicare OPSS rate reduction related to hospitals that qualify for drug discounts under the federal 340B Program and granted a permanent injunction against the payment reduction. On July 31, 2020, the U.S. Court of Appeals for the D.C. Circuit reversed the District Court and held that HHS's decision to lower drug reimbursement rates for 340B hospitals rests on a reasonable interpretation of the Medicare statute. No further legal challenges are available to the plaintiffs and, as a result, we recognized \$8 million of revenues during 2020 that were previously reserved in a prior year.

On November 2, 2021, CMS issued its OPSS final rule for 2022. The hospital market basket increase is 2.7% and the productivity adjustment reduction is -0.7% for a net market basket increase of 2.0%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPSS update for 2022 will aggregate to a net increase of 2.4% which includes a 3.0% increase to behavioral health division partial hospitalization rates.

In December, 2020, CMS published its OPSS final rule for 2021. The hospital market basket increase is 2.4% and there is no productivity adjustment reduction to the 2021 OPSS market basket. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPSS update for 2021 will aggregate to a net increase of 3.3% which includes a 9.2% increase to behavioral health division partial hospitalization rates.

In November, 2019, CMS published its OPSS final rule for 2020. The hospital market basket increase is 3.0%. The Medicare statute requires a productivity adjustment reduction of 0.4% to the 2020 OPSS market basket resulting in a 2020 update to OPSS payment rates by 2.6%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPSS update for 2020 will aggregate to a net increase of 2.7% which includes a 7.7% increase to behavioral health division partial hospitalization rates. When the behavioral health division's partial hospitalization rate impact is excluded, we estimate that our Medicare 2020 OPSS payments will result in a 1.9% increase in payment levels for our acute care division, as compared to 2019. For CY 2020, CMS will use the FY 2020 hospital IPPS post-reclassified wage index for urban and rural areas as the wage index for the OPSS to determine the wage adjustments for both the OPSS payment rate and the copayment standardized amount.

In November, 2019, CMS finalized its Hospital Price Transparency rule that implements certain requirements under the June 24, 2019 Presidential Executive Order related to Improving Price and Quality Transparency in American Healthcare to Put Patients First. Under this final rule, effective January 1, 2021, CMS will require: (1) hospitals make public their standard charges (both gross charges and payer-specific negotiated charges) for all items and services online in a machine-readable format, and; (2) hospitals to make public standard charge data for a limited set of "shoppable services" the hospital provides in a form and manner that is more consumer friendly. On November 2, 2021, CMS released a final rule increasing the monetary penalty that CMS can impose on hospitals that fail to comply with the price transparency requirements. We believe that our hospitals are in full compliance with the applicable federal regulations.

Medicaid: Medicaid is a joint federal-state funded health care benefit program that is administered by the states to provide benefits to qualifying individuals. Most state Medicaid payments are made under a PPS-like system, or under programs that negotiate payment levels with individual hospitals. Amounts received under the Medicaid program are generally significantly less than a hospital's customary charges for services provided. In addition to revenues received pursuant to the Medicare program, we receive a large portion of our revenues either directly from Medicaid programs or from managed care companies managing Medicaid. All of our acute care hospitals and most of our behavioral health centers are certified as providers of Medicaid services by the appropriate governmental authorities.

We receive revenues from various state and county based programs, including Medicaid in all the states in which we operate (we receive Medicaid revenues in excess of \$100 million annually from each of California, Texas, Nevada, Washington, D.C., Pennsylvania, Illinois, Florida and Massachusetts); CMS-approved Medicaid supplemental programs in certain states including Texas, Mississippi, Illinois, Oklahoma, Nevada, Arkansas, California, Kentucky and Indiana, and; state Medicaid disproportionate share hospital payments in certain states including Texas and South Carolina. We are therefore particularly sensitive to potential reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states. We can provide no assurance that reductions to revenues earned pursuant to these programs, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations.

The Legislation substantially increases the federally and state-funded Medicaid insurance program, and authorizes states to establish federally subsidized non-Medicaid health plans for low-income residents not eligible for Medicaid starting in 2014. However, the Supreme Court has struck down portions of the Legislation requiring states to expand their Medicaid programs in exchange for increased federal funding. Accordingly, many states in which we operate have not expanded Medicaid coverage to individuals at 133% of the federal poverty level. Facilities in states not opting to expand Medicaid coverage under the Legislation may be additionally penalized by corresponding reductions to Medicaid disproportionate share hospital payments beginning in 2020, as discussed below. We can provide no assurance that further reductions to Medicaid revenues, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations.

On November 12, 2019, CMS issued the proposed Medicaid Fiscal Accountability Rule (“MFAR”) which CMS believed would strengthen the fiscal integrity of the Medicaid program and help ensure that state supplemental payments and financing arrangements are transparent and value-driven. In January, 2021, CMS issued a formal notice of withdrawal of this proposed rule.

In January, 2020, CMS announced a new opportunity to support states with greater flexibility to improve the health of their Medicaid populations. The new 1115 Waiver Block Grant Type Demonstration program, titled Healthy Adult Opportunity (“HAO”), emphasizes the concept of value-based care while granting states extensive flexibility to administer and design their programs within a defined budget. CMS believes this state opportunity will enhance the Medicaid program’s integrity through its focus on accountability for results and quality improvement, making the Medicaid program stronger for states and beneficiaries. The Biden administration has signaled its intent to withdraw the HAO demonstration. Accordingly, we are unable to predict whether the HAO demonstration will impact our future results of operations.

Various State Medicaid Supplemental Payment Programs:

We incur health-care related taxes (“Provider Taxes”) imposed by states in the form of a licensing fee, assessment or other mandatory payment which are related to: (i) healthcare items or services; (ii) the provision of, or the authority to provide, the health care items or services, or; (iii) the payment for the health care items or services. Such Provider Taxes are subject to various federal regulations that limit the scope and amount of the taxes that can be levied by states in order to secure federal matching funds as part of their respective state Medicaid programs. As outlined below, we derive a related Medicaid reimbursement benefit from assessed Provider Taxes in the form of Medicaid claims based payment increases and/or lump sum Medicaid supplemental payments.

Included in these Provider Tax programs are reimbursements received in connection with the Texas Uncompensated Care/Upper Payment Limit program (“UC/UPL”) and Texas Delivery System Reform Incentive Payments program (“DSRIP”). Additional disclosure related to the Texas UC/UPL and DSRIP programs is provided below.

Texas Uncompensated Care/Upper Payment Limit Payments:

Certain of our acute care hospitals located in various counties of Texas (Grayson, Hidalgo, Maverick, Potter and Webb) participate in Medicaid supplemental payment Section 1115 Waiver indigent care programs. Section 1115 Waiver Uncompensated Care (“UC”) payments replace the former Upper Payment Limit (“UPL”) payments. These hospitals also have affiliation agreements with third-party hospitals to provide free hospital and physician care to qualifying indigent residents of these counties. Our hospitals receive both supplemental payments from the Medicaid program and indigent care payments from third-party, affiliated hospitals. The supplemental payments are contingent on the county or hospital district making an Inter-Governmental Transfer (“IGT”) to the state Medicaid program while the indigent care payment is contingent on a transfer of funds from the applicable affiliated hospitals. However, the county or hospital district is prohibited from entering into an agreement to condition any IGT on the amount of any private hospital’s indigent care obligation.

On December 21, 2017, CMS approved the 1115 Waiver for the period January 1, 2018 to September 30, 2022. The Waiver continued to include UC and DSRIP payment pools with modifications and new state specific reporting deadlines that if not met by THHSC will result in material decreases in the size of the UC and DSRIP pools. For UC during the initial two years of this renewal, the UC program will remain relatively the same in size and allocation methodology. For year three of this waiver renewal, FFY 2020, and through FFY 2022, the size and distribution of the UC pool will be determined based on charity care costs reported to HHSC in accordance with Medicare cost report Worksheet S-10 principles. In September 2019, CMS approved the annual UC pool size in the amount of \$3.9 billion for demonstration years (“DYs”) 9, 10 and 11 (October 1, 2019 to September 30, 2022).

On April 16, 2021, CMS rescinded its January 15, 2021, 1115 Waiver ten year expedited renewal approval that was effective through September 30, 2030. In July, 2021, HHSC submitted another 1115 Waiver renewal application to CMS which reflects the same terms and conditions agreed to by CMS on January 15, 2021, in order to receive an extension beyond September 30, 2022.

Effective April 1, 2018, certain of our acute care hospitals located in Texas began to receive Medicaid managed care rate enhancements under the Uniform Hospital Rate Increase Program (“UHRIP”). The non-federal share component of these UHRIP rate enhancements are financed by Provider Taxes. The Texas 1115 Waiver rules require UHRIP rate enhancements be considered in the Texas UC payment methodology which results in a reduction to our UC payments. The UC amounts reported in the State Medicaid Supplemental Payment Program Table below reflect the impact of this new UHRIP program. In July 2020, THHSC announced CMS approval of an increase to UHRIP pool for the state’s 2021 fiscal year to \$2.7 billion from its current funding level of \$1.6 billion. We estimate that this UHRIP pool increase will not have a material impact on the Company financial results due to CMS approved pool allocation methodology for the SFY 2021 program.

On March 26, 2021, HHSC published a final rule that will apply to program periods on or after September 1, 2021, and UHRIP will be re-named the Comprehensive Hospital Increase Reimbursement Program (“CHIRP”). CHIRP will be comprised of a UHRIP component and an Average Commercial Incentive Award (“ACIA”) component. HHSC has proposed a pool size of \$5.0 billion subject to CMS approval. The Company is not able to estimate the financial impact of the program change.

On January 11, 2021, HHSC announced that CMS approved the pre-print modification that HHSC submitted for UHRIP period March 1, 2021 through August 31, 2021. CMS approved rate changes that will now increase rates for private Institutions of Mental Disease (“IMD”) for services provided to patients under age 21 or patients 65 years of age or older. The impact of this program is included in the Medicaid Supplemental Payment Programs table below.

On September 24, 2021, HHSC finalized New Fee-for-Service Supplemental Payment Program: Hospital Augmented Reimbursement Program (“HARP”) to be effective October 1, 2021. The HARP program continues the financial transition for providers who have historically participated in the Delivery System Reform Incentive Payment program described below. The program will provide additional funding to hospitals to help offset the cost hospitals incur while providing Medicaid services. HHSC financial model released concurrent with the publication of the final rule indicates net potential incremental Medicaid reimbursements to us of approximately \$15 million annually, without consideration of any potential adverse impact on future Medicaid DSH or Medicaid UC payments. This program is subject to CMS approval.

Texas Delivery System Reform Incentive Payments:

In addition, the Texas Medicaid Section 1115 Waiver includes a DSRIP pool to incentivize hospitals and other providers to transform their service delivery practices to improve quality, health status, patient experience, coordination, and cost-effectiveness. DSRIP pool payments are incentive payments to hospitals and other providers that develop programs or strategies to enhance access to health care, increase the quality of care, the cost-effectiveness of care provided and the health of the patients and families served. In May, 2014, CMS formally approved specific DSRIP projects for certain of our hospitals for demonstration years 3 to 5 (our facilities did not materially participate in the DSRIP pool during demonstration years 1 or 2). DSRIP payments are contingent on the hospital meeting certain pre-determined milestones, metrics and clinical outcomes. Additionally, DSRIP payments are contingent on a governmental entity providing an IGT for the non-federal share component of the DSRIP payment. THHSC generally approves DSRIP reported metrics, milestones and clinical outcomes on a semi-annual basis in June and December. Under the CMS approval noted above, the Waiver renewal requires the transition of the DSRIP program to one focused on "health system performance measurement and improvement." THHSC must submit a transition plan describing "how it will further develop its delivery system reforms without DSRIP funding and/or phase out DSRIP funded activities and meet mutually agreeable milestones to demonstrate its ongoing progress." The size of the DSRIP pool will remain unchanged for the initial two years of the waiver renewal with unspecified decreases in years three and four of the renewal, FFY 2020 and 2021, respectively. In FFY 2022, DSRIP funding under the waiver is eliminated. During the second quarter of 2021, we recorded \$13 million in incremental DSRIP revenues in connection with notification that we received from the THHSC that our DSRIP participant hospitals had met additional DSRIP project metrics. For FFY 2022, we will no longer receive DSRIP funds due to the elimination of this funding source by CMS in the Waiver renewals except for certain carryover DSRIP projects for which achievement of the required metrics will not be known until state fiscal year 2022. In March, 2020, HHSC submitted a DSRIP Transition Plan to CMS as required by the 1115 Waiver Special Terms and Conditions #37 that outlines a transition from the current DSRIP program to a Value-Based Purchasing (“VBP”) type payment model. As noted above, HHSC finalized a rule to make changes to existing UHRIP program. This rule change reflects HHSC’s effort to comply with federal regulations that require directed-payment programs to advance goals included in the state’s Medicaid managed care quality strategy and to align with the ongoing efforts to transition from the Delivery System Reform Incentive Payment program. We are unable to estimate the financial impact of this payment change.

Summary of Amounts Related To The Above-Mentioned Various State Medicaid Supplemental Payment Programs:

The following table summarizes the revenues, Provider Taxes and net benefit related to each of the above-mentioned Medicaid supplemental programs for the three and nine-month periods ended September 30, 2021 and 2020. The Provider Taxes are recorded in other operating expenses on the Condensed Consolidated Statements of Income as included herein.

	(amounts in millions)			
	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<u>Texas UC/UPL:</u>				
Revenues	\$ 40	\$ 29	\$ 107	\$ 85
Provider Taxes	(12)	(9)	(31)	(25)
Net benefit	\$ 28	\$ 20	\$ 76	\$ 60
<u>Texas DSRIP:</u>				
Revenues	\$ 0	\$ 0	\$ 44	\$ 29
Provider Taxes	0	0	(14)	(9)
Net benefit	\$ 0	\$ 0	\$ 30	\$ 20
<u>Various other state programs:</u>				
Revenues	\$ 83	\$ 107	\$ 317	\$ 249
Provider Taxes	(36)	(39)	(111)	(101)
Net benefit	\$ 47	\$ 68	\$ 206	\$ 148
<u>Total all Provider Tax programs:</u>				
Revenues	\$ 123	\$ 136	\$ 468	\$ 363
Provider Taxes	(48)	(48)	(156)	(135)
Net benefit	\$ 75	\$ 88	\$ 312	\$ 228

We estimate that our aggregate net benefit from the Texas and various other state Medicaid supplemental payment programs will approximate \$389 million (net of Provider Taxes of \$207 million) during the year ending December 31, 2021. This amount includes approximately \$62 million related to the Kentucky Hospital Rate Increase Program, as described below. These amounts are based upon various terms and conditions that are out of our control including, but not limited to, the states'/CMS's continued approval of the programs and the applicable hospital district or county making IGTs consistent with 2020 levels. Future changes to these terms and conditions could materially reduce our net benefit derived from the programs which could have a material adverse impact on our future consolidated results of operations. In addition, Provider Taxes are governed by both federal and state laws and are subject to future legislative changes that, if reduced from current rates in several states, could have a material adverse impact on our future consolidated results of operations. As described below in *2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation*, a 6.2% increase to the Medicaid Federal Matching Assistance Percentage ("FMAP") is included in the Families First Coronavirus Response Act. The impact of the enhanced FMAP Medicaid supplemental and DSH payments are reflected in our results for year ended December 31, 2020 and for the three and nine-month periods ended September 30, 2021. We are unable to estimate the prospective financial impact of this provision at this time as our financial impact is contingent on unknown state action during future eligible federal fiscal quarters.

Texas and South Carolina Medicaid Disproportionate Share Hospital Payments:

Hospitals that have an unusually large number of low-income patients (i.e., those with a Medicaid utilization rate of at least one standard deviation above the mean Medicaid utilization, or having a low income patient utilization rate exceeding 25%) are eligible to receive a DSH adjustment. Congress established a national limit on DSH adjustments. Although this legislation and the resulting state broad-based provider taxes have affected the payments we receive under the Medicaid program, to date the net impact has not been materially adverse.

Upon meeting certain conditions and serving a disproportionately high share of Texas' and South Carolina's low income patients, five of our facilities located in Texas and one facility located in South Carolina received additional reimbursement from each state's DSH fund. The South Carolina and Texas DSH programs were renewed for each state's 2022 DSH fiscal year (covering the period of October 1, 2021 through September 30, 2022).

In connection with these DSH programs, included in our financial results was an aggregate of approximately \$12 million and \$10 million during the three-month periods ended September 30, 2021 and 2020, respectively, and \$35 million during each of the nine-month periods ended September 30, 2021 and 2020. We expect the aggregate reimbursements to our hospitals pursuant to the Texas and South Carolina 2021 fiscal year programs to be approximately \$48 million.

The Legislation and subsequent federal legislation provides for a significant reduction in Medicaid disproportionate share payments beginning in federal fiscal year 2024 (see above in *Sources of Revenues and Health Care Reform-Medicaid Revisions* for additional disclosure related to the delay of these DSH reductions). HHS is to determine the amount of Medicaid DSH payment cuts imposed on each state based on a defined methodology. As Medicaid DSH payments to states will be cut, consequently, payments to Medicaid-participating providers, including our hospitals in Texas and South Carolina, will be reduced in the coming years. Based on the CMS final rule published in September, 2019, beginning in fiscal year 2024 (as amended by the CARES Act and the CAA), annual Medicaid DSH payments in South Carolina and Texas could be reduced by approximately 74% and 44%, respectively, from 2020 DSH payment levels.

Our behavioral health care facilities in Texas have been receiving Medicaid DSH payments since FFY 2016. As with all Medicaid DSH payments, hospitals are subject to state audits that typically occur up to three years after their receipt. DSH payments are subject to a federal Hospital Specific Limit (“HSL”) and are not fully known until the DSH audit results are concluded. In general, freestanding psychiatric hospitals tend to provide significantly less charity care than acute care hospitals and therefore are at more risk for retroactive recoupment of prior year DSH payments in excess of their respective HSL. In light of the retroactive HSL audit risk for freestanding psychiatric hospitals, we have established DSH reserves for our facilities that have been receiving funds since FFY 2016. These DSH reserves are also impacted by the resolution of federal DSH litigation related to Children’s Hospital Association of Texas v. Azar (“CHAT”), No. 17-cv-844 (D.D.C. March 2, 2018), appeal docketed, No. 18-5135 (D.C. Cir. May 9, 2018) where the calculation of HSL was being challenged. In August, 2019, DC Circuit Court of Appeals issued a unanimous decision in CHAT and reversed the judgment of the district court in favor of CMS and ordered that CMS’s “2017 Rule” (regarding Medicaid DSH Payments—Treatment of Third Party Payers in Calculating Uncompensated Care Costs) be reinstated. CMS has not issued any additional guidance post the ruling. In April 2020, the plaintiffs in the case have petitioned the Supreme Court of the United States to hear their case. Additionally, there have been separate legal challenges on this same issue in the Fifth and Eighth Circuits. On November 4, 2019, the United States Court of Appeals for the Eighth Circuit issued an opinion upholding the 2017 Rule. *Missouri Hosp. Ass’n v. Azar*, No. 18-1778 (8th Cir. Nov. 4, 2019) (i.e. reversing a district court order enjoining the 2017 rule). On April 20, 2020, the United States Court of Appeals of the Fifth Circuit issued a decision also upholding the 2017 Rule. *Baptist Memorial Hospital v. Azar*, No. 18-60592 (5th Cir. April 20, 2020). In light of these court decisions, we continue to maintain reserves in the financial statements for cumulative Medicaid DSH and UC reimbursements related to our behavioral health hospitals located in Texas that amounted to \$41 million and \$37 million as of September 30, 2021 and 2020, respectively.

Nevada SPA:

In Nevada, CMS approved a state plan amendment (“SPA”) in August, 2014 that implemented a hospital supplemental payment program retroactive to January 1, 2014. This SPA has been approved for additional state fiscal years including the 2021 fiscal year covering the period of July 1, 2020 through June 30, 2021. CMS approval for the 2022 fiscal year, which is still pending, is expected to occur.

In connection with this program, included in our financial results was approximately \$5 million and \$6 million during the three-month periods ended September 30, 2021 and 2020, respectively, and \$16 million and \$20 million during the nine-month periods ended September 30, 2021 and 2020, respectively. We estimate that our reimbursements pursuant to this program will approximate \$20 million during the year ended December 31, 2021.

California SPA:

In California, CMS issued formal approval of the 2017-19 Hospital Fee Program in December, 2017 retroactive to January 1, 2017 through September 30, 2019. In September, 2019, the state submitted a request to renew the Hospital Fee Program for the period July 1, 2019 to December 31, 2021. On February 25, 2020, CMS approved this renewed program. These approvals include the Medicaid inpatient and outpatient fee-for-service supplemental payments and the overall provider tax structure but did not yet include the approval of the managed care rate setting payment component for certain rate periods (see table below). The managed care payment component consists of two categories of payments, “pass-through” payments and “directed” payments. The pass-through payments are similar in nature to the prior Hospital Fee Program payment method whereas the directed payment method will be based on actual concurrent hospital Medicaid managed care in-network patient volume.

Hospital Fee Program Component	CMS Methodology Approval Status	CMS Rate Setting Approval Status
Fee For Service Payment	Approved through December 31, 2021	Approved through December 31, 2021; Paid through March 31, 2021
Managed Care-Pass-Through Payment	Approved through December 31, 2021	Approved through June 30, 2017; Paid in advance of approval through December 31, 2020
Managed Care-Directed Payment	Approved through December 31, 2020	Approved through June 30, 2017; Paid in advance of approval through December 31, 2019

In connection with the existing program, included in our financial results was approximately \$11 million and \$35 million for the three-month periods ending September 30, 2021 and 2020, respectively, and \$35 million and \$49 million during the nine-month periods ended September 30, 2021 and 2020, respectively. We estimate that our reimbursements pursuant to this program will approximate \$46 million during the year ended December 31, 2021. The aggregate impact of the California supplemental payment program, as outlined above, is included in the above *State Medicaid Supplemental Payment Program* table.

In April, 2020, the California Department of Health Care Services (“DHCS”) notified hospital providers that participate in the Medicaid managed care directed payment program that DHCS would recalculate directed payments for the period of July 1, 2017 through September 30, 2018 (“SFY 2018”) to remedy an identified data error. In August, 2020, as a follow-up to that notification, DHCS issued its corrected directed payment calculations. The updated calculation resulted in a favorable adjustment to the above program year and also resulted in increased expected supplemental payment amount for program years subsequent to the recalculated SFY 2018 rate period. The California Hospital Fee amounts noted above include our portion of the state corrected data.

Kentucky Hospital Rate Increase Program (“HRIP”):

As previously disclosed in early 2021, CMS approved the Kentucky Medicaid Managed Care Hospital Rate Increase Program (“HRIP”) for SFY 2021, which covered the period of July 1, 2020 through June 30, 2021. This program change increased our reimbursement for SFY 2021 by an aggregate of approximately \$62 million, of which \$55 million and \$7 million were recorded by us during the second and third quarter of 2021, respectively.

Programs such as HRIP require an annual state submission and approval by CMS. In May, 2021, Kentucky submitted a request to CMS in order to continue the HRIP program for SFY 2022 with a similar payment methodology and payment level as the SFY 2021 program. Although we believe the CMS approval process is in progress, we are unable to predict if CMS will ultimately approve the HRIP for SFY 2022, and if approved, if the rates will be generally comparable to the SFY 2021 HRIP rates.

Florida Medicaid Managed Care Directed Payment Program (“DPP”):

During the fourth quarter of 2021, we expect to record approximately \$25 million of increased reimbursement as a result of recent CMS approval of the Medicaid managed care directed payment program for the 2021 rate period (October 1, 2020 to September 30, 2021). Various DPP related legislative and regulatory approvals result in the retroactive payment of the increased reimbursement after the applicable rate year has ended. The payment methodology and amount of the 2022 DPP (covering the period of October 1, 2021 to September 30, 2022) is expected to be comparable to the 2021 DPP. As a result, if CMS and other legislative and regulatory approvals occur in connection with the 2022 program, we may be entitled to increased reimbursement during 2022 in an amount comparable to the \$25 million expected for the 2021 DPP.

Risk Factors Related To State Supplemental Medicaid Payments:

As outlined above, we receive substantial reimbursement from multiple states in connection with various supplemental Medicaid payment programs. The states include, but are not limited to, Texas, Mississippi, Illinois, Nevada, Arkansas, California and Indiana. Failure to renew these programs beyond their scheduled termination dates, failure of the public hospitals to provide the necessary IGTs for the states’ share of the DSH programs, failure of our hospitals that currently receive supplemental Medicaid revenues to qualify for future funds under these programs, or reductions in reimbursements, could have a material adverse effect on our future results of operations.

In April, 2016, CMS published its final Medicaid Managed Care Rule which explicitly permits but phases out the use of pass-through payments (including supplemental payments) by Medicaid Managed Care Organizations (“MCO”) to hospitals over ten years but allows for a transition of the pass-through payments into value-based payment structures, delivery system reform initiatives or payments tied to services under a MCO contract. Since we are unable to determine the financial impact of this aspect of the final rule, we can provide no assurance that the final rule will not have a material adverse effect on our future results of operations. In

November, 2020, CMS issued a final rule permitting pass-through supplemental provider payments during a time-limited period when states transition populations or services from fee-for-service Medicaid to managed care.

HITECH Act: In July 2010, the Department of Health and Human Services (“HHS”) published final regulations implementing the health information technology (“HIT”) provisions of the American Recovery and Reinvestment Act (referred to as the “HITECH Act”). The final regulation defines the “meaningful use” of Electronic Health Records (“EHR”) and establishes the requirements for the Medicare and Medicaid EHR payment incentive programs. The final rule established an initial set of standards and certification criteria. The implementation period for these Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. State Medicaid program participation in this federally funded incentive program is voluntary but all of the states in which our eligible hospitals operate have chosen to participate. Our acute care hospitals qualified for these EHR incentive payments upon implementation of the EHR application assuming they meet the “meaningful use” criteria. The government’s ultimate goal is to promote more effective (quality) and efficient healthcare delivery through the use of technology to reduce the total cost of healthcare for all Americans and utilizing the cost savings to expand access to the healthcare system.

All of our acute care hospitals have met the applicable meaningful use criteria. However, under the HITECH Act, hospitals must continue to meet the applicable meaningful use criteria in each fiscal year or they will be subject to a market basket update reduction in a subsequent fiscal year. Failure of our acute care hospitals to continue to meet the applicable meaningful use criteria would have an adverse effect on our future net revenues and results of operations.

In the 2019 IPPS final rule, CMS overhauled the Medicare and Medicaid EHR Incentive Program to focus on interoperability, improve flexibility, relieve burden and place emphasis on measures that require the electronic exchange of health information between providers and patients. We can provide no assurance that the changes will not have a material adverse effect on our future results of operations.

Managed Care: A significant portion of our net patient revenues are generated from managed care companies, which include health maintenance organizations, preferred provider organizations and managed Medicare (referred to as Medicare Part C or Medicare Advantage) and Medicaid programs. In general, we expect the percentage of our business from managed care programs to continue to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of our facilities vary among the markets in which we operate. Typically, we receive lower payments per patient from managed care payers than we do from traditional indemnity insurers, however, during the past few years we have secured price increases from many of our commercial payers including managed care companies.

Commercial Insurance: Our hospitals also provide services to individuals covered by private health care insurance. Private insurance carriers typically make direct payments to hospitals or, in some cases, reimburse their policy holders, based upon the particular hospital’s established charges and the particular coverage provided in the insurance policy. Private insurance reimbursement varies among payers and states and is generally based on contracts negotiated between the hospital and the payer.

Commercial insurers are continuing efforts to limit the payments for hospital services by adopting discounted payment mechanisms, including predetermined payment or DRG-based payment systems, for more inpatient and outpatient services. To the extent that such efforts are successful and reduce the insurers’ reimbursement to hospitals and the costs of providing services to their beneficiaries, such reduced levels of reimbursement may have a negative impact on the operating results of our hospitals.

Surprise Billing Interim Final Rule: On September 30, 2021, the Department of Health and Human Services (“HHS”), the Department of Labor, and the Department of the Treasury (collectively, the Departments), along with the Office of Personnel Management (“OPM”), released an interim final rule with comment period, entitled “Requirements Related to Surprise Billing; Part II.” This rule is related to Title I (the No Surprises Act) of Division BB of the Consolidated Appropriations Act, 2021, and establishes new protections from surprise billing and excessive cost sharing for consumers receiving health care items/services. It implements additional protections against surprise medical bills under the No Surprises Act, including provisions related to the independent dispute resolution process, good faith estimates for uninsured (or self-pay) individuals, the patient-provider dispute resolution process, and expanded rights to external review. We do not expect this interim final rule to have a material impact on our results of operations.

Other Sources: Our hospitals provide services to individuals that do not have any form of health care coverage. Such patients are evaluated, at the time of service or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other state assistance programs, as well as our local hospitals’ indigent and charity care policy. Patients without health care coverage who do not qualify for Medicaid or indigent care write-offs are offered substantial discounts in an effort to settle their outstanding account balances.

Health Care Reform: Listed below are the Medicare, Medicaid and other health care industry changes which have been, or are scheduled to be, implemented as a result of the Legislation.

Implemented Medicare Reductions and Reforms:

- The Legislation reduced the market basket update for inpatient and outpatient hospitals and inpatient behavioral health facilities by 0.25% in each of 2010 and 2011, by 0.10% in each of 2012 and 2013, 0.30% in 2014, 0.20% in each of 2015 and 2016 and 0.75% in each of 2017, 2018 and 2019.
- The Legislation implemented certain reforms to Medicare Advantage payments, effective in 2011.
- A Medicare shared savings program, effective in 2012.
- A hospital readmissions reduction program, effective in 2012.
- A value-based purchasing program for hospitals, effective in 2012.
- A national pilot program on payment bundling, effective in 2013.
- Reduction to Medicare DSH payments, effective in 2014, as discussed above.

Medicaid Revisions:

- Expanded Medicaid eligibility and related special federal payments, effective in 2014.
- The Legislation (as amended by subsequent federal legislation) requires annual aggregate reductions in federal DSH funding from federal fiscal year (“FFY”) 2024 through FFY 2027. Medicaid DSH reductions have been delayed several times. Commencing in federal fiscal year 2024, and continuing through 2027, DSH payments will be reduced by \$8 billion annually.

Health Insurance Revisions:

- Large employer insurance reforms, effective in 2015.
- Individual insurance mandate and related federal subsidies, effective in 2014. As noted above in *Health Care Reform*, the Tax Cuts and Jobs Act enacted into law in December, 2017 eliminated the individual insurance federal mandate penalty beginning January 1, 2019.
- Federally mandated insurance coverage reforms, effective in 2010 and forward.

The Legislation seeks to increase competition among private health insurers by providing for transparent federal and state insurance exchanges. The Legislation also prohibits private insurers from adjusting insurance premiums based on health status, gender, or other specified factors. We cannot provide assurance that these provisions will not adversely affect the ability of private insurers to pay for services provided to insured patients, or that these changes will not have a negative material impact on our results of operations going forward.

Value-Based Purchasing:

There is a trend in the healthcare industry toward value-based purchasing of healthcare services. These value-based purchasing programs include both public reporting of quality data and preventable adverse events tied to the quality and efficiency of care provided by facilities. Governmental programs including Medicare and Medicaid currently require hospitals to report certain quality data to receive full reimbursement updates. In addition, Medicare does not reimburse for care related to certain preventable adverse events. Many large commercial payers currently require hospitals to report quality data, and several commercial payers do not reimburse hospitals for certain preventable adverse events.

The Legislation required HHS to implement a value-based purchasing program for inpatient hospital services which became effective on October 1, 2012. The Legislation requires HHS to reduce inpatient hospital payments for all discharges by 2% in FFY 2017 and subsequent years. HHS will pool the amount collected from these reductions to fund payments to reward hospitals that meet or exceed certain quality performance standards established by HHS. HHS will determine the amount each hospital that meets or exceeds the quality performance standards will receive from the pool of dollars created by these payment reductions. As part of the FFY 2022 IPPS final rule described above, and as a result of the on-going COVID-19 pandemic, CMS has implemented a budget neutral payment policy to fully offset the 2% VBP withhold during FFY 2022.

Hospital Acquired Conditions:

The Legislation prohibits the use of federal funds under the Medicaid program to reimburse providers for medical assistance provided to treat hospital acquired conditions (“HAC”). Beginning in FFY 2015, hospitals that fall into the top 25% of national risk-adjusted HAC rates for all hospitals in the previous year will receive a 1% reduction in their total Medicare payments.

Readmission Reduction Program:

In the Legislation, Congress also mandated implementation of the hospital readmission reduction program (“HRRP”). Hospitals with excessive readmissions for conditions designated by HHS will receive reduced payments for all inpatient discharges, not just discharges relating to the conditions subject to the excessive readmission standard. The HRRP currently assesses penalties on hospitals having excess readmission rates for heart failure, myocardial infarction, pneumonia, acute exacerbation of chronic obstructive pulmonary disease (COPD) and elective total hip arthroplasty (THA) and/or total knee arthroplasty (TKA), excluding planned readmissions, when compared to expected rates. In the fiscal year 2015 IPPS final rule, CMS added readmissions for coronary artery bypass graft (CABG) surgical procedures beginning in fiscal year 2017. To account for excess readmissions, an applicable hospital’s base operating DRG payment amount is adjusted for each discharge occurring during the fiscal year. Readmissions payment adjustment factors can be no more than a 3 percent reduction.

Accountable Care Organizations:

The Legislation requires HHS to establish a Medicare Shared Savings Program that promotes accountability and coordination of care through the creation of accountable care organizations (“ACOs”). The ACO program allows providers (including hospitals), physicians and other designated professionals and suppliers to voluntarily work together to invest in infrastructure and redesign delivery processes to achieve high quality and efficient delivery of services. The program is intended to produce savings as a result of improved quality and operational efficiency. ACOs that achieve quality performance standards established by HHS will be eligible to share in a portion of the amounts saved by the Medicare program. CMS is also developing and implementing more advanced ACO payment models, such as the Next Generation ACO Model, which require ACOs to assume greater risk for attributed beneficiaries. On December 21, 2018, CMS published a final rule that, in general, requires ACO participants to take on additional risk associated with participation in the program. On April 30, 2020, CMS issued an interim final rule with comment in response to the COVID-19 national emergency permitting ACOs with current agreement periods expiring on December 31, 2020 the option to extend their existing agreement period by one year, and permitting certain ACOs to retain their participation level through 2021. It remains unclear to what extent providers will pursue federal ACO status or whether the required investment would be warranted by increased payment.

Bundled Payments for Care Improvement Advanced:

The Center for Medicare & Medicaid Innovation (“CMMI”) implemented a new, second generation voluntary episode payment model, Bundled Payments for Care Improvement Advanced (“BPCI-Advanced” or the “Program”), with the first performance period beginning October 1, 2018. BPCI-Advanced is designed to test a new iteration of bundled payments with an aim to align incentives among participating health care providers to reduce expenditures and improve quality of care for traditional Medicare beneficiaries.

During the fourth quarter of 2020, CMS restructured the FY2021 to FY2023 program and required participants to select from eight Clinical Episode Service Line Groups instead of individual clinical episodes. CMS also announced that the now voluntary program would become mandatory in 2024.

For our hospitals that participated in the program, the CMS BPCI-A reconciliation for the period October 1, 2018 through December 31, 2020 did not have a material impact on our financial results.

The ultimate success and financial impact of the BPCI-Advanced program is contingent on multiple variables so we are unable to estimate the future impact. However, given the breadth and scope of participation of our acute care hospitals in BPCI-Advanced, the impact could be significant (either favorably or unfavorably) depending on actual program results.

2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation

In response to the growing threat of COVID-19, on March 13, 2020 a national emergency was declared. The declaration empowered the HHS Secretary to waive certain Medicare, Medicaid and Children’s Health Insurance Program (“CHIP”) program requirements and Medicare conditions of participation under Section 1135 of the Social Security Act. Having been granted this authority by HHS, CMS issued a broad range of blanket waivers, which eased certain requirements for impacted providers, including:

- Waivers and Flexibilities for Hospitals and other Healthcare Facilities including those for physical environment requirements and certain Emergency Medical Treatment & Labor Act provisions
- Provider Enrollment Flexibilities
- Flexibility and Relief for State Medicaid Programs including those under section 1135 Waivers
- Suspension of Certain Enforcement Activities

In addition to the national emergency declaration, Congress passed and Presidents Trump and Biden have signed various forms of legislation intended to support state and local authority responses to COVID-19 as well as provide fiscal support to businesses, individuals, financial markets, hospitals and other healthcare providers.

Some of the financial support included in the various legislative actions include:

- Medicaid FMAP Enhancement

- The FMAP was increased by 6.2% retroactive to the federal fiscal quarter beginning January 1, 2020 and each subsequent federal fiscal quarter for all states and U.S. territories during the declared public health emergency, in accordance with specified conditions.
- Public Health Emergency Declaration
 - The HHS Secretary renewed the public health emergency (“PHE”) effective October 18, 2021 for ninety (90) days. As a result, states would be eligible for the enhanced FMAP through the end of federal fiscal quarter ending March 31, 2022 should the PHE not be rescinded by the Secretary before the end of the ninety day period.
- Creation of a \$250 billion Public Health and Social Services Emergency Fund (“PHSSEF”)
 - Makes grants available to hospitals and other healthcare providers to cover unreimbursed healthcare related expenses or lost revenues attributable to the public health emergency resulting from the coronavirus.
 - During 2021, we received approximately \$189 million in PHSSEF grants from the federal government as provided for by the CARES Act. As previously disclosed, we returned these funds to HHS during the second quarter of 2021. Since our intent was to return these funds, our results of operations for during the three and nine-month periods ended September 30, 2021 include no impact from the receipt of the funds. Included in our results of operations for the three and nine-month periods ended September 30, 2021 was approximately \$3 million and \$16 million, respectively, of revenues recognized in connection with funds received from various state and local governmental stimulus grant programs.
 - During the year ended December 31, 2020, we received approximately \$417 million of funds from various governmental stimulus programs, most notably the PHSSEF as provided for by the CARES Act. Included in our results of operations for the year ended December 31, 2020 was approximately \$413 million of revenues recognized in connection with funds received from these federal, state and local governmental stimulus programs. Our results of operations for the three-month period ended September 30, 2020 included a reversal of approximately \$5 million of previously recognized revenues in connection with these governmental stimulus programs; and our results of operations for the nine-month period ended September 30, 2020 included approximately \$213 million of revenues recorded in connection with these governmental stimulus programs.
 - All PHSSEF receipts are pursuant to meeting the applicable the terms and conditions of the various distribution programs as of September 30, 2021. The Consolidated Appropriations Act, 2021 (H.R. 133) enacted on December 27, 2020 includes language that provides specific instructions on: (1) the redistribution of PHSSEF grant payments by a parent company among its subsidiaries, and; (2) the calculation of lost revenue in a PHSSEF grant entitlement determination. The HHS terms and conditions for all grant recipients and specific fund distributions are located at <https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/for-providers/index.html>
- Reimburse hospitals at Medicare rates for uncompensated COVID-19 care for the uninsured
 - Our operating results for the three and nine-month periods ended September 30, 2021 included \$11 million and \$42 million, respectively, of revenues in connection with this program. During the year ended December 31, 2020, we recorded \$29 million in connection with this program, approximately \$9 million and \$11 million of which were included in our operating results for the three and nine-month periods ended September 30, 2020, respectively. Revenue for the eligible patient encounters is recorded in the period in which the encounter is deemed eligible for this program net of any normal accounting reserves.
- Medicare Sequestration Relief
 - Suspension of the 2% Medicare sequestration offset for Medicare services provided from May 1, 2020 through December 31, 2021 by various legislative extensions.
 - We estimate that this provision had a favorable impact of approximately \$11 million and \$34 million during the three and nine-month periods ended September 30, 2021, respectively, and will have a favorable impact of approximately \$11 million over the remaining three months of 2021. We estimate that this provision had a favorable impact of \$30 million during the year ended December 31, 2020, approximately \$11 million and \$19 million of which was included in our results of operations during the three and nine-month periods ended September 30, 2020, respectively.
- Medicare add-on for inpatient hospital COVID-19 patients
 - Increases the payment that would otherwise be made to a hospital for treating a Medicare patient admitted with COVID-19 by twenty percent (20%) for the duration of the COVID-19 public health emergency.

- For the three and nine-month periods ended September 30, 2021, we estimate that additional payments under this provision were approximately \$8 million and \$27 million, respectively. For the year ended December 31, 2020, we estimate that additional payments under this provision were approximately \$32 million, approximately \$13 million and \$18 million of which were included in our results of operations during the three and nine-month periods ended September 30, 2020, respectively. These payments offset the increased expenses associated with the treatment of Medicare COVID-19 patients.
- Expansion of the Medicare Accelerated and Advance Payment Program (“MAAPP”)
 - In March, 2021, we fully repaid the \$695 million of Medicare Accelerated payments received during 2020.

In addition to statutory and regulatory changes to the Medicare program and each of the state Medicaid programs, our operations and reimbursement may be affected by administrative rulings, new or novel interpretations and determinations of existing laws and regulations, post-payment audits, requirements for utilization review and new governmental funding restrictions, all of which may materially increase or decrease program payments as well as affect the cost of providing services and the timing of payments to our facilities. The final determination of amounts we receive under the Medicare and Medicaid programs often takes many years, because of audits by the program representatives, providers’ rights of appeal and the application of numerous technical reimbursement provisions. We believe that we have made adequate provisions for such potential adjustments. Nevertheless, until final adjustments are made, certain issues remain unresolved and previously determined allowances could become either inadequate or more than ultimately required.

Finally, we expect continued third-party efforts to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payers could have a material adverse effect on our financial position and our results.

Other Operating Results

Interest Expense:

As reflected on the schedule below, interest expense was \$21 million and \$25 million during the three-month periods ended September 30, 2021 and 2020, respectively, and \$64 million and \$86 million during the nine-month periods ended September 30, 2021 and 2020, respectively (amounts in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Revolving credit & demand notes (a.)	\$ 502	\$ 510	\$ 1,502	\$ 1,737
\$700 million, 4.75% Senior Notes due 2022, net (b.)	-	7,792	-	23,932
\$400 million, 5.00% Senior Notes due 2026 (c.)	4,000	5,000	14,000	15,000
\$800 million, 2.65% Senior Notes due 2030 (d.)	5,356	532	16,113	532
\$700 million, 1.65% Senior Notes due 2026 (e.)	1,205	-	1,205	-
\$500 million, 2.65% Senior Notes due 2032 (f.)	1,376	-	1,376	-
Tranche A term loan facility (a.)	6,460	7,584	20,576	31,023
Tranche B term loan facility (a.)	1,352	2,410	5,941	9,511
Accounts receivable securitization program (g.)	10	406	777	3,032
Subtotal-revolving credit, demand notes, Senior Notes, term loan facilities and accounts receivable securitization program	20,261	24,234	61,490	84,767
Amortization of financing fees	1,087	1,305	3,205	3,865
Other combined interest expense	1,322	580	4,197	1,685
Capitalized interest on major projects	(1,305)	(1,024)	(2,957)	(3,051)
Interest income	(166)	(520)	(1,480)	(867)
Interest expense, net	<u>\$ 21,199</u>	<u>\$ 24,575</u>	<u>\$ 64,455</u>	<u>\$ 86,399</u>

- (a.) In August, 2021, we entered into a seventh amendment to our credit agreement dated November 15, 2010, as amended, which provided for the amendment and restatement of the previously existing credit facility. In September, 2021, we entered into an eight amendment to our credit agreement which modified the definition of “Adjusted LIBO Rate”. The seventh amendment, provided for, among other things, the following: (i) a \$1.2 billion aggregate amount revolving credit facility that is scheduled to mature in August, 2026, representing an increase of \$200 million over the \$1.0 billion previous commitment (no borrowings outstanding as of September 30, 2021); (ii) a \$1.7 billion tranche A term loan facility that is scheduled to mature in August, 2026, resulting in a reduction of \$150 million from the \$1.85 billion of borrowings outstanding under the previous tranche A term loan facility, and; (iii) repayment of approximately \$488 million of

borrowings outstanding under the previous tranche B term loan facility. The \$638 million net repayment of borrowings under the tranche A and tranche B term loan facilities in connection with the seventh amendment (\$150 million and \$488 million, respectively), were funded utilizing a portion of the proceeds generated from the August, 2021 issuance of the \$700 million, 1.65% Senior Notes due in 2026, and the \$500 million, 2.65%, Senior Notes due in 2032.

- (b.) In September, 2020, we redeemed the entire \$700 million aggregate principal amount of our previously outstanding 4.75% Senior Secured Notes that were scheduled to mature in 2022.
- (c.) In September, 2021, we redeemed the entire \$400 million aggregate principal amount of our previously outstanding 5.00% Senior Secured Notes that were scheduled to mature in 2026 (“2026 Notes”) at a cash redemption price equal to the sum of: (i) 102.50% of the aggregate principal amount of the 2026 Notes redeemed, and; (ii) accrued and unpaid interest on the 2026 Notes to the redemption date. This redemption was funded utilizing a portion of the proceeds generated from the August, 2021 issuance of the \$700 million, 1.65% Senior Notes due in 2026, and the \$500 million, 2.65% Senior Notes due in 2032, as discussed in (e.) and (f.) below.
- (d.) In September, 2020, we completed the offering of \$800 million aggregate principal amount of 2.65% Senior Notes due in 2030.
- (e.) In August, 2021, we completed the offering of \$700 million aggregate principal amount of 1.65% Senior Notes due in 2026.
- (f.) In August, 2021, we completed the offering of \$500 million aggregate principal amount of 2.65% Senior Notes due in 2032.
- (g.) Our accounts receivable securitization program was amended in April, 2021 to reduce the borrowing commitment to \$20 million (from \$450 million previously) and to extend the maturity date to April 25, 2022. There are no outstanding borrowings as of September 30, 2021.

Interest expense decreased approximately \$3 million during the three-month period ended September 30, 2021, as compared to the comparable quarter of 2020, due primarily to: (i) a net \$4 million decrease in aggregate interest expense on our revolving credit, demand notes, senior notes, term loan facilities and accounts receivable securitization program resulting from a decrease in our aggregate average cost of borrowings pursuant to these facilities (2.13% during the third quarter of 2021 as compared to 2.67% in the comparable quarter of 2020), offset by an increase in the aggregate average outstanding borrowings (\$3.70 billion during the third quarter of 2021 as compared to \$3.59 billion during the comparable quarter of 2020), and; (ii) \$1 million of other combined net increases in interest expense.

Interest expense decreased \$22 million during the nine-month period ended September 30, 2021 as compared to the comparable prior year period of 2020, primarily due to: (i) a net \$23 million decrease in aggregate interest expense on our revolving credit, demand notes, senior notes, term loan facilities and accounts receivable securitization program resulting from a decrease in our aggregate average cost of borrowings pursuant to these facilities (2.19% during the first nine months of 2021 as compared to 3.06% during the comparable period of 2020), as well as a slight increase in the aggregate average outstanding borrowings (\$3.69 billion during the nine months ended September 30, 2021 as compared to \$3.67 billion during the comparable 2020 period).

Costs Related to Early Extinguishment of Debt:

In connection with the refinancing transaction completed during the third quarter of 2021, our results of operations for the three and nine-months ended September 30, 2021 include a pre-tax charge of approximately \$17 million incurred for the costs related to the extinguishment of debt. This charge, which is included in other (income) expense, net, consists of the write-off of deferred charges (approximately \$7 million) as well as the make-whole premium paid on the early redemption of the \$400 million, 5% senior notes (approximately \$10 million).

Provision for Income Taxes and Effective Tax Rates:

The effective tax rates, as calculated by dividing the provision for income taxes by income before income taxes, were as follows for the three and nine-month periods ended September 30, 2021 and 2020 (dollar amounts in thousands):

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Provision for income taxes	\$ 67,515	\$ 79,172	\$ 232,844	\$ 204,649
Income before income taxes	286,890	323,264	986,565	849,705
Effective tax rate	23.5%	24.5%	23.6%	24.1%

The provision for income taxes decreased \$12 million during the three-month period ended September 30, 2021, as compared to the third quarter of 2020, due primarily to: (i) the income tax benefit recorded in connection with the \$35 million decrease in pre-tax income, and; (ii) a \$3 million decrease in the provision for income taxes recorded in connection with ASU 2016-09.

The provision for income taxes increased \$28 million during the nine-month period ended September 30, 2021, as compared to the first nine months of 2020, due primarily to: (i) the income tax provision recorded in connection with the \$145 million increase in pre-tax income, partially offset by; (ii) a \$7 million decrease in the provision for income taxes recorded in connection with ASU 2016-09.

Liquidity

Net cash provided by operating activities

Net cash provided by operating activities was \$562 million during the nine-month period ended September 30, 2021 and \$2.218 billion during the first nine months of 2020. The net decrease of \$1.656 billion was attributable to the following:

- an unfavorable change of \$1.576 billion resulting primarily from the early return of the \$695 million of Medicare accelerated payments which were repaid during the first quarter of 2021, as compared to a favorable change of \$878 million experienced during the first nine months of 2020 resulting from receipt of the Medicare accelerated payments and other deferred governmental stimulus grants;
- a favorable change of \$153 million resulting from an increase in net income plus depreciation and amortization expense, stock-based compensation expense, gain/loss on sale of assets and businesses, costs related to debt extinguishment and provision for asset impairment;
- an unfavorable change of \$111 million due to the first nine months of 2020 including the favorable impact of the payment deferral of the employer's share of Social Security taxes, as provided for by the CARES, Act;
- an unfavorable change of \$75 million in accounts receivable;
- an unfavorable change of \$51 million in accrued and deferred income taxes, and;
- \$4 million of other combined net favorable changes.

Days sales outstanding ("DSO"): Our DSO are calculated by dividing our net revenue by the number of days in the nine-month periods. The result is divided into the accounts receivable balance at September 30th of each year to obtain the DSO. Our DSO were 51 days at both September 30, 2021 and 2020.

Net cash used in investing activities

During the first nine months of 2021, we used \$660 million of net cash in investing activities as follows:

- \$666 million spent on capital expenditures including capital expenditures for equipment, renovations and new projects at various existing facilities;
- \$39 million spent on acquisition of business and property;
- \$21 million received from the sale of our equity interest in a business;
- \$20 million received in connection with the implementation of information technology applications (consists primarily of refunded costs previously paid), and;
- \$4 million received in connection with net cash inflows from forward exchange contracts that hedge our investment in the U.K. against movements in exchange rates.

During the first nine months of 2020, we used \$575 million of net cash in investing activities as follows:

- \$547 million spent on capital expenditures including capital expenditures for equipment, renovations and new projects at various existing facilities;
- \$52 million spent on acquisition of businesses and property;
- \$22 million received in connection with net cash inflows from forward exchange contracts that hedge our investment in the U.K. against movements in exchange rates;
- \$8 million received from the sale of assets and businesses;
- \$5 million spent on the purchase and implementation of information technology applications, and;
- \$1 million spent on investments in joint ventures.

Net cash used in financing activities

During the first nine months of 2021, we used \$936 million of net cash in financing activities as follows:

- spent \$3.027 billion on net repayments of debt as follows: (i) \$1.9 billion related to our tranche A term loan facility; (ii) \$490 million related to our recently terminated tranche B term loan facility; (iii) \$410 million related to the early redemption of our previously outstanding \$400 million, 5.00% senior secured notes which were scheduled to mature in June, 2026; (iv) \$225 million in connection with our accounts receivable securitization program, and; (v) \$2 million related to other debt facilities;
- generated \$2.912 billion of additional borrowings as follows: (i) \$1.7 billion related to our tranche A term loan facility; (ii) \$699 million (net of discount) related to the August, 2021 issuance of \$700 million, 1.65% senior secured notes due in September, 2026; (iii) \$499 million (net of discount) related to the August, 2021 issuance of \$500 million, 2.65% senior secured notes due in January, 2032, and; (iv) received \$14 million of proceeds related to other debt facilities;
- spent \$770 million to repurchase shares of our Class B Common Stock in connection with: (i) open market purchases pursuant to our stock repurchase program (\$751 million), and; (ii) income tax withholding obligations related to stock-based compensation programs (\$19 million);
- spent \$50 million to pay cash dividends of \$.20 per share during each of the first, second and third quarters;
- spent \$18 million to pay financing costs incurred in connection with the various financing transactions, as discussed herein;
- received \$13 million in connection with the sale of ownership interest to minority members;
- generated \$10 million from the issuance of shares of our Class B Common Stock pursuant to the terms of employee stock purchase plans, and;
- spent \$6 million to pay profit distributions related to noncontrolling interests in majority owned businesses.

During the first nine months of 2020, we used \$603 million of net cash in financing activities as follows:

- spent \$1.174 billion on net repayments of debt as follows: (i) \$700 million to redeem our previously outstanding 4.75% senior secured notes which were scheduled to mature in 2022; (ii) \$400 million related to our accounts receivable securitization program; (iii) \$38 million related to our tranche A term loan facility; (iv) \$4 million related to our tranche B term loan facility, and; (v) \$32 million related to a short-term credit facility (\$31 million) and other debt facilities (\$1 million).
- generated \$803 million of proceeds as follows: (i) \$798 million of proceeds (net of discount) received in connection with the issuance in September, 2020 of the \$800 million, 2.65% senior secured notes which are scheduled to mature in 2030, and; (ii) \$5 million related to other debt facilities;
- spent \$200 million to repurchase shares of our Class B Common Stock in connection with: (i) open market purchases pursuant to our \$2.7 billion stock repurchase program, which has since been suspended as a result of the COVID-19 pandemic (\$197 million), and; (ii) income tax withholding obligations related to stock-based compensation programs (\$3 million);
- spent \$15 million to pay profit distributions related to noncontrolling interests in majority owned businesses;
- spent \$17 million to pay cash dividends of \$.20 per share during the first quarter (prior to dividends being suspended from April, 2020 until March, 2021 as a result of various initiatives implemented by us related to the COVID-19 pandemic);
- generated \$9 million from the issuance of shares of our Class B Common Stock pursuant to the terms of employee stock purchase plans;
- spent \$8 million to pay financing costs incurred in connection with the \$800 million, 2.65% senior secured notes which were issued during the third quarter of 2020, and;
- spent \$1 million to purchase ownership interest from minority members.

Expected capital expenditures during remainder of 2021

Our estimated capital expenditures for the full year of 2021 are projected to be approximately \$850 million to \$1.0 billion. During the first nine months of 2021, we spent approximately \$666 million on capital expenditures. During the remaining three months of 2021, we expect to spend approximately \$184 million to \$334 million which includes expenditures for capital equipment, renovations and new projects at existing hospitals.

We believe that our capital expenditure program is adequate to expand, improve and equip our existing hospitals. We expect to finance all capital expenditures and acquisitions with internally generated funds and/or additional funds, as discussed below.

Capital Resources

Cash and Cash Equivalents

As of September 30, 2021, we had approximately \$190 million of cash and cash equivalents consisting primarily of short-term cash accounts on which interest is being earned at various annual rates ranging from 0.20% to 0.26%.

Credit Facilities and Outstanding Debt Securities

On August 24, 2021, we entered into a seventh amendment to our credit agreement dated as of November 15, 2010, as amended and restated as of September 21, 2012, August 7, 2014 and October 23, 2018, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, and JPMorgan Chase Bank, N.A., as administrative agent, (the "Credit Agreement"). In September, 2021, we entered into an eight amendment to our Credit Agreement which modified the definition of "Adjusted LIBO Rate".

The seventh amendment to the Credit Agreement, among other things, provided for the following:

- a \$1.2 billion aggregate amount revolving credit facility, which is scheduled to mature on August 24, 2026, representing an increase of \$200 million over the \$1.0 billion previous commitment. As of September 30, 2021, this facility had no borrowings outstanding and \$1.196 billion of available borrowing capacity, net of \$4 million of outstanding letters of credit;
- a \$1.7 billion tranche A term loan facility, which is scheduled to mature on August 24, 2026, resulting in a reduction of \$150 million from the \$1.85 billion of borrowings outstanding under the previous tranche A term loan facility, and;
- repayment of approximately \$488 million of outstanding borrowings and termination of the previous tranche B term loan facility.

Pursuant to the terms of the seventh amendment, the tranche A term loan, which had \$1.70 billion of borrowings outstanding as of September 30, 2021, provides for installment payments of \$10.625 million per quarter beginning on December 31, 2021 through September 30, 2023 and \$21.25 million per quarter beginning on December 31, 2023 through June 30, 2026. The unpaid principal balance at June 30, 2026 is due on the maturity date.

Borrowings under the Credit Agreement bear interest at our election at either (1) the ABR rate which is defined as the rate per annum equal to the greatest of (a) the lender's prime rate, (b) the weighted average of the federal funds rate, plus 0.5% and (c) one month LIBOR rate plus 1%, in each case, plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 0.25% to 0.625% for revolving credit and term loan A borrowings or (2) the one, three or six month LIBOR rate (at our election), plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 1.25% to 1.625% for revolving credit and term loan A borrowings. As of September 30, 2021, the applicable margins were 0.25% for ABR-based loans and 1.25% for LIBOR-based loans under the revolving credit and term loan A facilities. The revolving credit facility includes a \$125 million sub-limit for letters of credit. The Credit Agreement is secured by certain assets of the Company and our material subsidiaries (which generally excludes asset classes such as substantially all of the patient-related accounts receivable of our acute care hospitals, and certain real estate assets and assets held in joint-ventures with third parties) and is guaranteed by our material subsidiaries.

The Credit Agreement includes a material adverse change clause that must be represented at each draw. The Credit Agreement also contains covenants that include a limitation on sales of assets, mergers, change of ownership, liens and indebtedness, transactions with affiliates, dividends and stock repurchases; and requires compliance with financial covenants including maximum leverage. We are in compliance with all required covenants as of September 30, 2021 and December 31, 2020.

On August 24, 2021, we completed the following via private offerings to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended:

- Issued \$700 million of aggregate principal amount of 1.65% senior secured notes due on September 1, 2026, and;
- Issued \$500 million of aggregate principal amount of 2.65% senior secured notes due on January 15, 2032.

In April, 2021, our accounts receivable securitization program ("Securitization") was amended (the eighth amendment) to: (i) reduce the aggregate borrowing commitments to \$20 million (from \$450 million previously); (ii) slightly reduce the borrowing rates and commitment fee, and; (iii) extend the maturity date to April 25, 2022 (from April, 2021 previously). Substantially all other material terms and conditions remained unchanged. There were no borrowings outstanding pursuant to the Securitization as of September 30, 2021.

On September 13, 2021, we redeemed \$400 million of aggregate principal amount of 5.00% senior secured notes, that were scheduled to mature on June 1, 2026, at 102.50% of the aggregate principal, or \$410 million.

As of September 30, 2021, we had combined aggregate principal of \$2.0 billion from the following senior secured notes:

- \$700 million aggregate principal amount of 1.65% senior secured notes due in September, 2026 ("2026 Notes") which were issued on September 13, 2021.

- o \$800 million aggregate principal amount of 2.65% senior secured notes due in October, 2030 (“2030 Notes”) which were issued on September 21, 2020.
- o \$500 million of aggregate principal amount of 2.65% senior secured notes due in January, 2032 (“2032 Notes”) which were issued on September 13, 2021.

On September 28, 2020, we redeemed the entire \$700 million aggregate principal amount of our previously outstanding 4.75% senior secured notes, which were scheduled to mature in August, 2022, at 100% of the aggregate principal amount.

Interest on the 2026 Notes is payable on March 1st and September 1st until the maturity date of September 1, 2026. Interest on the 2030 Notes payable on April 15th and October 15th, until the maturity date of October 15, 2030. Interest on the 2032 Notes is payable on January 15th and July 15th until the maturity date of January 15, 2032.

The 2026 Notes, 2030 Notes and 2032 Notes (collectively “The Notes”) were offered only to qualified institutional buyers under Rule 144A and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act of 1933, as amended (the “Securities Act”). The Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The Notes are guaranteed (the “*Guarantees*”) on a senior secured basis by all of our existing and future direct and indirect subsidiaries (the “*Subsidiary Guarantors*”) that guarantee our Credit Agreement, or other first lien obligations or any junior lien obligations. The Notes and the Guarantees are secured by first-priority liens, subject to permitted liens, on certain of the Company’s and the Subsidiary Guarantors’ assets now owned or acquired in the future by the Company or the Subsidiary Guarantors (other than real property, accounts receivable sold pursuant to the Company’s Existing Receivables Facility (as defined in the Indenture pursuant to which The Notes were issued (the “*Indenture*”)), and certain other excluded assets). The Company’s obligations with respect to The Notes, the obligations of the Subsidiary Guarantors under the Guarantees, and the performance of all of the Company’s and the Subsidiary Guarantors’ other obligations under the Indenture, are secured equally and ratably with the Company’s and the Subsidiary Guarantors’ obligations under the Credit Agreement and The Notes by a perfected first-priority security interest, subject to permitted liens, in the collateral owned by the Company and its Subsidiary Guarantors, whether now owned or hereafter acquired. However, the liens on the collateral securing The Notes and the Guarantees will be released if: (i) The Notes have investment grade ratings; (ii) no default has occurred and is continuing, and; (iii) the liens on the collateral securing all first lien obligations (including the Credit Agreement and The Notes) and any junior lien obligations are released or the collateral under the Credit Agreement, any other first lien obligations and any junior lien obligations is released or no longer required to be pledged. The liens on any collateral securing The Notes and the Guarantees will also be released if the liens on that collateral securing the Credit Agreement, other first lien obligations and any junior lien obligations are released.

In connection with the issuance of The Notes, the Company, the Subsidiary Guarantors and the representatives of the several initial purchasers, entered into Registration Rights Agreements (the “*Registration Rights Agreements*”), whereby the Company and the Subsidiary Guarantors have agreed, at their expense, to use commercially reasonable best efforts to: (i) cause to be filed a registration statement enabling the holders to exchange The Notes and the Guarantees for registered senior secured notes issued by the Company and guaranteed by the then Subsidiary Guarantors under the Indenture (the “*Exchange Securities*”), containing terms identical to those of The Notes (except that the Exchange Securities will not be subject to restrictions on transfer or to any increase in annual interest rate for failure to comply with the Registration Rights Agreements); (ii) cause the registration statement to become effective; (iii) complete the exchange offer not later than 60 days after such effective date and in any event on or prior to a target registration date of March 21, 2023 in the case of the 2030 Notes and February 24, 2024 in the case of the 2026 and 2032 Notes, and; (iv) file a shelf registration statement for the resale of The Notes if the exchange offers cannot be effected within the time periods listed above. The interest rate on The Notes will increase and additional interest thereon will be payable if the Company does not comply with its obligations under the Registration Rights Agreements.

At September 30, 2021, the carrying value and fair value of our debt were each approximately \$3.75 billion. At December 31, 2020, the carrying value and fair value of our debt were each approximately \$3.9 billion. The fair value of our debt was computed based upon quotes received from financial institutions. We consider these to be “level 2” in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with debt instruments.

Our total debt as a percentage of total capitalization was approximately 37% at September 30, 2021 and 38% at December 31, 2020.

We expect to finance all capital expenditures and acquisitions and pay dividends and potentially repurchase shares of our common stock utilizing internally generated and additional funds. Additional funds may be obtained through: (i) borrowings under our existing revolving credit facility, which had \$1.196 billion of available borrowing capacity as of September 30, 2021, or through refinancing the existing Credit Agreement; (ii) the issuance of other short-term and/or long-term debt, and/or; (iii) the issuance of equity. We believe that our operating cash flows, cash and cash equivalents, available commitments under existing agreements, as well as access to the capital markets, provide us with sufficient capital resources to fund our operating, investing and financing requirements for the next twelve months. However, in the event we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time. Our inability to obtain financing on terms acceptable to us could have a material unfavorable impact on our results of operations, financial condition and liquidity.

Off-Balance Sheet Arrangements

During the three months ended September 30, 2021, there have been no material changes in the off-balance sheet arrangements consisting of standby letters of credit and surety bonds.

As of September 30, 2021 we were party to certain off balance sheet arrangements consisting of standby letters of credit and surety bonds which totaled \$169 million consisting of: (i) \$159 million related to our self-insurance programs, and; (ii) \$10 million of other debt and public utility guarantees.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative disclosures during the three months ended September 30, 2021. Reference is made to *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 4. Controls and Procedures

As of September 30, 2021, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we performed an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “1934 Act”). Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management on a timely basis in order to comply with our disclosure obligations under the 1934 Act and the SEC rules thereunder.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting or in other factors during the third quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 6-Commitments and Contingencies to our condensed consolidated financial statements in Item 1 of Part I of this report for a description of our legal proceedings. Such information is hereby incorporated by reference.

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2020 includes a listing of risk factors to be considered by investors in our securities. During the third quarter of 2021, there have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of September 30, 2021, we had an aggregate stock repurchase authorization of \$3.7 billion which was approved by our Board of Directors in various increments since 2014, including an authorized \$1.0 billion increase in our stock repurchase program on July 26, 2021. Pursuant to the terms of this program, which had an aggregate available repurchase authorization of \$790.5 million as of September 30, 2021, shares of our Class B Common Stock may be repurchased, from time to time as conditions allow, on the open market or in negotiated private transactions. There is no expiration date for our stock repurchase program.

During the second quarter of 2021, our Board of Directors approved a resumption of our stock repurchase program which had been suspended since April, 2020, as part of various COVID-19 initiatives. As reflected below, during the three-month period ended September 30, 2021, we have repurchased approximately 2.78 million shares at an aggregate cost of approximately \$419.1 million (approximately \$151.00 per share) pursuant to the terms of our stock repurchase program. In addition, during the three-month period ended September 30, 2021, 9,001 shares were repurchased in connection with income tax withholding obligations resulting from stock-based compensation programs.

During the period of July 1, 2021 through September 30, 2021, we repurchased the following shares:

	Additional Dollars Authorized For Repurchase (in thousands)	Total number of shares purchased	Total number of shares cancelled	Average price paid per share for forfeited restricted shares	Total Number of shares purchased as part of publicly announced programs	Average price paid per share for shares purchased as part of publicly announced program	Aggregate purchase price paid for shares purchased as part of publicly announced program (in thousands)	Maximum number of shares that may yet be purchased under the program	Maximum number of dollars that may yet be purchased under the program (in thousands)
July, 2021	\$ 1,000,000,000	4,842	2,138	\$ 0.01	—	—	—	—	\$ 1,209,545
August, 2021	—	1,165,130	2,248	\$ 0.01	1,164,082	\$ 153.37	178,536	—	\$ 1,031,009
September, 2021	—	1,615,024	1,426	\$ 0.01	1,611,913	\$ 149.21	240,514	—	\$ 790,495
Total July through September, 2021	<u>\$ 1,000,000,000</u>	<u>2,784,996</u>	<u>5,812</u>	<u>\$ 0.01</u>	<u>2,775,995</u>	<u>150.95</u>	<u>\$ 419,050</u>		

Dividends

During the quarter ended September 30, 2021, we declared and paid dividends of \$.20 per share. Dividend equivalents are accrued on unvested restricted stock units and will be paid upon vesting of the restricted stock unit.

Item 6. Exhibits

- 4.1 [Indenture, dated as of August 24, 2021, by and among the Company, the Subsidiary Guarantors party thereto, U.S. Bank National Association, as Trustee, and JPMorgan Chase Bank, N.A., as collateral agent, previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 24, 2021, is incorporated herein by reference.](#)
- 4.2 [Additional Authorized Representative Joinder Agreement, dated as of August 24, 2021, among U.S. Bank National Association, as Trustee and Additional Authorized Representative, the Company, the Subsidiary Guarantors party thereto, and JPMorgan Chase Bank, N.A., as collateral agent and administrative agent, previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated August 24, 2021, is incorporated herein by reference.](#)
- 4.3 [Supplemental Indenture, dated as of August 24, 2021, among the Company, the Subsidiary Guarantors party thereto, U.S. Bank National Association \(as successor to MUFG Union Bank, N.A.\), as trustee, and JPMorgan Chase Bank, N.A., as collateral agent, to the indenture, dated as of September 21, 2020, governing the Existing 2030 Notes, previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated August 24, 2021, is incorporated herein by reference.](#)
- 10.1 [Registration Rights Agreement, dated as of August 24, 2021, by and among the Company, the Subsidiary Guarantors party thereto, and J.P. Morgan Securities LLC, BofA Securities, Inc., Goldman Sachs & Co. LLC and Truist Securities, Inc., as representatives of the several Initial Purchasers, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 24, 2021, is incorporated herein by reference.](#)
- 10.2 [Seventh Amendment to Credit Agreement, dated as of November 15, 2010 and amended and restated as of September 21, 2012, August 7, 2014, October 23, 2018, among the Company, the several banks and other financial institutions or entities from time to time parties thereto, Fifth Third Bank, National Association, Sumitomo Mitsui Banking Corporation, and Capital One, N.A., as co-documentation agents, BofA Securities, Inc., Truist Bank, Goldman Sachs Bank USA, Wells Fargo Bank, National Association, Mizuho Bank, Ltd. MUFG Bank Ltd., PNC Bank National Association, TD Bank, N.A. and U.S. Bank National Association, as co-syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent, including the amendment and restatement thereof, effective as of August 24, 2021, attached as Exhibit A thereto and referred to herein as the Credit Agreement, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 24, 2021, is incorporated herein by reference.](#)
- 10.3 [Eighth Amendment, dated as of September 10, 2021, to the Credit Agreement.](#)
- 31.1 [Certification of the Company's Chief Executive Officer pursuant to Rule 13a-14\(a\)/15d-14\(a\) under the Securities Exchange Act of 1934.](#)
- 31.2 [Certification of the Company's Chief Financial Officer pursuant to Rule 13a-14\(a\)/15d-14\(a\) under the Securities Exchange Act of 1934.](#)
- 32.1 [Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS Inline XBRL Instance Document –the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, has been formatted in Inline XBRL.

UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Universal Health Services, Inc.
(Registrant)

Date: November 8, 2021

/s/ MARC D. MILLER

Marc D. Miller,
President and Chief Executive Officer
(Principal Executive Officer)

/s/ STEVE FILTON

Steve Filton, Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EIGHTH AMENDMENT

EIGHTH AMENDMENT, dated as of September 10, 2021 (this "Amendment"), to the Credit Agreement, dated as of November 15, 2010 (as amended, amended and restated or otherwise modified from time to time, the "Credit Agreement"), among UNIVERSAL HEALTH SERVICES, INC., a Delaware corporation (the "Borrower"), the several banks and other financial institutions from time to time parties thereto (the "Lenders"), JPMORGAN CHASE BANK, N.A., as administrative agent (the "Administrative Agent") and the other agents party thereto.

W I T N E S S E T H:

WHEREAS, the Borrower and the Administrative Agent are parties to the Credit Agreement;

WHEREAS, the Borrower has requested to amend the definition of "Adjusted LIBO Rate" to remove the reference to rounding the rate upwards, if necessary, to the next 1/16 of 1% effective as of August 24, 2021;

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Credit Agreement are used herein as therein defined.

2. Amendment to the Credit Agreement.

Effective as of August 24, 2021, Section 1.1 of the Credit Agreement is hereby amended by replacing the definition of "Adjusted LIBO Rate" in its entirety with the following:

“Adjusted LIBO Rate” means, with respect to any Eurodollar Borrowing denominated in Dollars for any Interest Period, an interest rate per annum equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.”

3. Effectiveness. This Amendment, shall become effective (retroactive to August 24, 2021, as provided in Section 2) as of the date (the "Eighth Amendment Effective Date") on which each of the following conditions precedent shall have been satisfied:

- (a) The Administrative Agent shall have received the Amendment, dated as of the Eighth Amendment Effective Date, duly executed and delivered by the Borrower, the Guarantors and each Lender to the Credit Agreement.
 - (b) Each of the representations and warranties made by any Loan Party in or pursuant to the Credit Agreement and other Loan Documents shall be true and correct in all material respects on and as of the Eighth Amendment Effective Date, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date (except that any representation and warranty that is qualified as to "materiality" or "Material Adverse Effect" shall be true and correct in all respects).
 - (c) No Default or Event of Default has occurred and is continuing on the Eighth Amendment Effective Date or after giving effect to the amendments contemplated herein.
-

(f) The Lenders and the Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented on or before the Eighth Amendment Effective Date.

4. Effect. Except as expressly amended hereby and which shall take effect only on and after the Amendment, all of the representations, warranties, terms, covenants and conditions of the Loan Documents shall remain unamended and not waived and shall continue to be in full force and effect. This Amendment is a Loan Document.

5. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. The words "execution," "signed," "signature," "delivery," and words of like import in or relating to this Amendment and/or any document to be signed in connection with this Amendment and the transactions contemplated hereby shall be deemed to include Electronic Signatures (as defined below), deliveries or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be. "Electronic Signatures" means any electronic symbol or process attached to, or associated with, any contract or other record and adopted by a person with the intent to sign, authenticate or accept such contract or record.

6. Ratification. Each of the Guarantors acknowledges that its consent to this Amendment is not required, but each of the undersigned nevertheless does hereby agree and consent to this Amendment and to the documents and agreements referred to herein. Each of the Guarantors agrees and acknowledges that (i) notwithstanding the effectiveness of this Amendment, such Guarantor's guarantee shall remain in full force and effect without modification thereto and (ii) nothing herein shall in any way limit any of the terms or provisions of such Guarantor's guarantee, the Collateral Agreement or any other Loan Document executed by such Guarantor (as the same may be amended from time to time), all of which are hereby ratified, confirmed and affirmed in all respects as of the Eighth Amendment Effective Date. Each of the Guarantors hereby agrees and acknowledges that no other agreement, instrument, consent or document shall be required to give effect to this Section 6. Each of the Guarantors hereby further acknowledges that the Borrower, the Administrative Agent and any Lender may from time to time enter into any further amendments, modifications, terminations and/or waivers of any provision of the Loan Documents without notice to or consent from such Guarantor and without affecting the validity or enforceability of such Guarantor's guarantee or giving rise to any reduction, limitation, impairment, discharge or termination of such Guarantor's guarantee. Each Loan Party agrees that each Security Document secures all Obligations of the Loan Parties in accordance with the terms thereof. Each Loan Party ratifies and confirms that all Liens granted, conveyed, or assigned to the Administrative Agent by such Person pursuant to each Loan Document to which it is a party remain in full force and effect, are not released or reduced, and continue to secure full payment and performance of the Obligations after giving effect to the transactions contemplated by this Amendment.

7. Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8. Integration. This Amendment and the other Loan Documents represent the agreement of the Loan Parties, the Administrative Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

9. GOVERNING LAW. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

10. NO NOVATION. This Amendment shall not extinguish the obligations for the payment of money outstanding under the Credit Agreement (except to the extent repaid as provided herein or in the Credit Agreement) or discharge or release the Lien or priority of any Security Document or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Credit Agreement or instruments securing the same, which shall remain in full force and effect, except to any extent modified hereby or by instruments executed concurrently herewith and except to the extent repaid as provided herein. Nothing implied in this Amendment or in any other document contemplated hereby shall be construed as a release or other discharge of any of the Loan Parties under any Loan Document from any of its obligations and liabilities as a borrower, guarantor or pledgor under any of the Loan Documents (except to the extent repaid as provided herein). All of the Liens and security interests created and arising under any Loan Document remain in full force and effect on a continuous basis, and the perfected status and priority of each such Lien and security interest continues in full force and effect on a continuous basis, unimpaired, uninterrupted and undischarged, after giving effect to this Amendment, as collateral security for its obligations, liabilities and indebtedness under the Credit Agreement and under its guarantees, if any, in the Loan Documents.

[Remainder of page left blank intentionally]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

UNIVERSAL HEALTH SERVICES, INC.

By: By: /s/ STEVE FILTON
Name: Steve Filton
Title: Executive Vice President, Chief Financial
Officer and Secretary

UHS OF DELAWARE, INC.

By: By: /s/ STEVE FILTON
Name: Steve Filton
Title: Executive Vice President and
Chief Financial Officer

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

LANCASTER HOSPITAL CORPORATION
MERION BUILDING MANAGEMENT, INC.
NORTHWEST TEXAS HEALTHCARE SYSTEM, INC.
UHS HOLDING COMPANY, INC.
UHS OF CORNERSTONE, INC.
UHS OF CORNERSTONE HOLDINGS, INC.
UHS OF D.C., INC.
UHS-CORONA, INC.
UNIVERSAL HEALTH SERVICES OF PALMDALE, INC.
VALLEY HOSPITAL MEDICAL CENTER, INC.

MCALLEN MEDICAL CENTER, INC.
SPARKS FAMILY HOSPITAL, INC.
UHS OF RIVER PARISHES, INC.
UHS OF TEXOMA, INC.
UNIVERSAL HEALTH SERVICES OF RANCHO SPRINGS,
INC.

By: /s/ STEVE FILTON
Name: Steve Filton
Title: Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

ABS LINGS SC, INC.
ABS LINGS VA, INC.
ALLIANCE HEALTH CENTER, INC.
ALTERNATIVE BEHAVIORAL SERVICES, INC.
ASCEND HEALTH CORPORATION
BENCHMARK BEHAVIORAL HEALTH SYSTEM, INC.
BHC ALHAMBRA HOSPITAL, INC.
BHC BELMONT PINES HOSPITAL, INC.
BHC FAIRFAX HOSPITAL, INC.
BHC FOX RUN HOSPITAL, INC.
BHC FREMONT HOSPITAL, INC.
BHC HEALTH SERVICES OF NEVADA, INC.
BHC HERITAGE OAKS HOSPITAL, INC.
BHC HOLDINGS, INC.
BHC INTERMOUNTAIN HOSPITAL, INC.
BHC MONTEVISTA HOSPITAL, INC.
BHC SIERRA VISTA HOSPITAL, INC.
BHC STREAMWOOD HOSPITAL, INC.
BRENTWOOD ACQUISITION, INC.
BRENTWOOD ACQUISITION - SHREVEPORT, INC.
BRYNN MARR HOSPITAL, INC.
CALVARY CENTER, INC.
CANYON RIDGE HOSPITAL, INC.
CCS/LANSING, INC.
CEDAR SPRINGS HOSPITAL, INC.
CHILDREN'S COMPREHENSIVE SERVICES, INC.
DEL AMO HOSPITAL, INC.
FIRST HOSPITAL CORPORATION OF VIRGINIA BEACH
FORT LAUDERDALE HOSPITAL, INC.
FRN, INC.
FRONTLINE BEHAVIORAL HEALTH, INC.
GREAT PLAINS HOSPITAL, INC.
GULF COAST TREATMENT CENTER, INC.
H. C. CORPORATION
HARBOR POINT BEHAVIORAL HEALTH CENTER, INC.
HAVENWYCK HOSPITAL INC.
HHC AUGUSTA, INC.
HHC DELAWARE, INC.
HHC INDIANA, INC.
HHC OHIO, INC.
HHC RIVER PARK, INC.
HHC SOUTH CAROLINA, INC.
HHC ST. SIMONS, INC.
HORIZON HEALTH AUSTIN, INC.

HORIZON HEALTH CORPORATION
HSA HILL CREST CORPORATION
KIDS BEHAVIORAL HEALTH OF UTAH, INC.
LAUREL OAKS BEHAVIORAL HEALTH CENTER, INC.
MERIDELL ACHIEVEMENT CENTER, INC.
MICHIGAN PSYCHIATRIC SERVICES, INC.
NORTH SPRING BEHAVIORAL HEALTHCARE, INC.
OAK PLAINS ACADEMY OF TENNESSEE, INC.
PARK HEALTHCARE COMPANY
PENNSYLVANIA CLINICAL SCHOOLS, INC.
PREMIER BEHAVIORAL SOLUTIONS, INC.
PREMIER BEHAVIORAL SOLUTIONS OF FLORIDA, INC.
PSYCHIATRIC SOLUTIONS, INC.
PSYCHIATRIC SOLUTIONS OF VIRGINIA, INC.
RAMSAY YOUTH SERVICES OF GEORGIA, INC.
RIVER OAKS, INC.
RIVEREDGE HOSPITAL HOLDINGS, INC.
SOUTHEASTERN HOSPITAL CORPORATION
SPRINGFIELD HOSPITAL, INC.
STONINGTON BEHAVIORAL HEALTH, INC.
SUMMIT OAKS HOSPITAL, INC.
TEMECULA VALLEY HOSPITAL, INC.
TEMPLE BEHAVIORAL HEALTHCARE HOSPITAL, INC.
TEXAS HOSPITAL HOLDINGS, INC.
THE ARBOUR, INC.
TWO RIVERS PSYCHIATRIC HOSPITAL, INC.
UHS CHILDREN SERVICES, INC.
UHS OF DENVER, INC.
UHS OF FAIRMOUNT, INC.
UHS OF FULLER, INC.
UHS OF GEORGIA, INC.
UHS OF GEORGIA HOLDINGS, INC.
UHS OF HAMPTON, INC.
UHS OF HARTGROVE, INC.
UHS OF PARKWOOD, INC.
UHS OF PENNSYLVANIA, INC.
UHS OF PROVO CANYON, INC.
UHS OF PUERTO RICO, INC.
UHS OF SPRING MOUNTAIN, INC.

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF TIMBERLAWN, INC.
UHS OF TIMPANOGOS, INC.
UHS OF WESTWOOD PEMBROKE, INC.
UHS OF WYOMING, INC.
UHS SAHARA, INC.
UNITED HEALTHCARE OF HARDIN, INC.
WINDMOOR HEALTHCARE INC.
WINDMOOR HEALTHCARE OF PINELLAS PARK, INC.
WISCONSIN AVENUE PSYCHIATRIC CENTER, INC.

UHS OF MADERA, INC.

By: /s/ STEVE FILTON
Name: Steve Filton
Title: Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

AIKEN REGIONAL MEDICAL CENTERS, LLC
LA AMISTAD RESIDENTIAL TREATMENT CENTER, LLC
PALM POINT BEHAVIORAL HEALTH, LLC
TENNESSEE CLINICAL SCHOOLS, LLC
THE BRIDGEWAY, LLC
TURNING POINT CARE CENTER, LLC
UHS OF BENTON, LLC
UHS OF BOWLING GREEN, LLC
UHS OF GREENVILLE, LLC
UHS OF LAKESIDE, LLC
UHS OF PHOENIX, LLC
UHS OF RIDGE, LLC
UHS OF ROCKFORD, LLC
UHS OF TUCSON, LLC
UHS SUB III, LLC
UHSD, L.L.C.
WELLINGTON REGIONAL MEDICAL CENTER, LLC

By: Universal Health Services, Inc.
Its sole member

By:

/s/ STEVE

FILTON

Name:

Steve Filton

Title:

Executive Vice President, Secretary

and Chief Financial

Officer

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

FORT DUNCAN MEDICAL CENTER, L.P.

By: Fort Duncan Medical Center, Inc.
Its general partner

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

FRONTLINE HOSPITAL, LLC
FRONTLINE RESIDENTIAL TREATMENT CENTER, LLC

By: Frontline Behavioral Health, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

KEYS GROUP HOLDINGS LLC

By: UHS Children Services, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

KEYSTONE/CCS PARTNERS LLC

By: Children's Comprehensive Services, Inc.
Its Minority Member

By: KEYS Group Holdings LLC
Its Managing Member and sole member of the minority member

By: UHS Children Services, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

KEYSTONE CONTINUUM, LLC
KEYSTONE NPS LLC
KEYSTONE RICHLAND CENTER, LLC

By: Keystone/CCS Partners LLC
Its sole member

By: Children's Comprehensive Services, Inc.
Its minority member

By: KEYS Group Holdings LLC
Its managing member and sole member of the minority member

By: UHS Children Services, Inc.
Its sole member

By: /s/ STEVE FILTON
Name:
Title:

Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

KEYSTONE EDUCATION AND YOUTH SERVICES, LLC

By: KEYS Group Holdings LLC

Its sole member

By: UHS Children Services, Inc.

Its sole member

By: /s/ STEVE FILTON

Name:

Steve Filton

Title:

Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

KEYSTONE MARION, LLC
KEYSTONE MEMPHIS, LLC
KEYSTONE NEWPORT NEWS, LLC
KEYSTONE WSNC, L.L.C.

By: Keystone Education and Youth Services, LLC
Its sole member

By: KEYS Group Holdings LLC
Its sole member

By: UHS Children Services, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

MANATEE MEMORIAL HOSPITAL, L.P.

By: Wellington Regional Medical Center, LLC
Its general partner

By: Universal Health Services, Inc.,
Its sole member

By:
FILTON
Name:
Title:
and Chief Financial Officer

/s/ STEVE
Steve Filton
Executive Vice President, Secretary

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

MCALLEN HOSPITALS, L.P.

By: McAllen Medical Center, Inc.
Its general partner

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

PENDLETON METHODIST HOSPITAL, L.L.C.

By: UHS of River Parishes, Inc.
Its managing member

By:

FILTON

Name:

Title:

/s/ STEVE

Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

GULPH MILLS ASSOCIATES, LLC
TBD ACQUISITION II, LLC
UHS KENTUCKY HOLDINGS, L.L.C.
UHS OF LANCASTER, LLC
UHS OF NEW ORLEANS, LLC
UHS OF OKLAHOMA, LLC
UHSL, L.L.C.
AZ HOLDING 4, LLC
UHS MIDWEST BEHAVIORAL HEALTH, LLC

By: UHS of Delaware, Inc.
Its sole member

By:
FILTON
Name:
Title:
Financial Officer

/s/ STEVE
Steve Filton
Executive Vice President and Chief

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF ANCHOR, L.P.
UHS OF LAUREL HEIGHTS, L.P.
UHS OF PEACHFORD, L.P.

By: UHS of Georgia, Inc.
Its general partner

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF CENTENNIAL PEAKS, L.L.C.

By: UHS of Denver, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF DOVER, L.L.C.

By: UHS of Rockford, LLC
Its sole member

By: Universal Health Services, Inc.
Its sole member

By:
FILTON
Name:
Title:
and Chief Financial Officer

/s/ STEVE

Steve Filton
Executive Vice President, Secretary

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF DOYLESTOWN, L.L.C.

By: UHS of Pennsylvania, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF SALT LAKE CITY, L.L.C.

By: UHS of Provo Canyon, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF SAVANNAH, L.L.C.

By: UHS of Georgia Holdings, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OKLAHOMA CITY LLC
UHS OF SPRINGWOODS, L.L.C.

By: UHS of New Orleans, LLC
Its sole member

By: UHS of Delaware, Inc.
Its sole member

By:
FILTON
Name:
Title:
Financial Officer

/s/ STEVE
Steve Filton
Executive Vice President and Chief

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS OF SUMMITRIDGE, LLC

By: UHS of Peachford, L.P.

Its sole member

By: UHS of Georgia, Inc.

Its general partner

By:

/s/ STEVE

FILTON

Name:

Steve Filton

Title:

Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

PSYCHIATRIC SOLUTIONS HOSPITALS, LLC

By: Psychiatric Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

DIAMOND GROVE CENTER, LLC
KMI ACQUISITION, LLC
LIBERTY POINT BEHAVIORAL HEALTHCARE, LLC
PSJ ACQUISITION, LLC
SHADOW MOUNTAIN BEHAVIORAL HEALTH SYSTEM,
LLC
SUNSTONE BEHAVIORAL HEALTH, LLC
TBD ACQUISITION, LLC

By: Psychiatric Solutions Hospitals, LLC
Its Sole Member

By: Psychiatric Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

ATLANTIC SHORES HOSPITAL, L.L.C.
EMERALD COAST BEHAVIORAL HOSPITAL, LLC
OCALA BEHAVIORAL HEALTH, LLC
PALMETTO BEHAVIORAL HEALTH HOLDINGS, LLC
RAMSAY MANAGED CARE, LLC
SAMSON PROPERTIES, LLC
TBJ BEHAVIORAL CENTER, LLC
THREE RIVERS HEALTHCARE GROUP, LLC
WEKIVA SPRINGS CENTER, LLC
ZEUS ENDEAVORS, LLC

By: Premier Behavioral Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

PALMETTO BEHAVIORAL HEALTH SYSTEM, L.L.C.

By: Palmetto Behavioral Health Holdings, LLC
Its Sole Member

By: Premier Behavioral Solutions, Inc.
Its Sole Member

By:

/s/ STEVE

FILTON

Name:

Steve Filton

Title:

Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

PALMETTO LOWCOUNTRY BEHAVIORAL HEALTH,
L.L.C.

By: Palmetto Behavioral Health System, L.L.C.
Its Sole Member

By: Palmetto Behavioral Health Holdings, LLC
Its Sole Member

By: Premier Behavioral Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

SP BEHAVIORAL, LLC
UNIVERSITY BEHAVIORAL, LLC

By: Ramsay Managed Care, LLC
Its Sole Member

By: Premier Behavioral Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

THREE RIVERS BEHAVIORAL HEALTH, LLC

By: Three Rivers Healthcare Group, LLC
Its Sole Member

By: Premier Behavioral Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

THE NATIONAL DEAF ACADEMY, LLC

By: Zeus Endeavors, LLC
Its Sole Member

By: Premier Behavioral Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

WILLOW SPRINGS, LLC

By: BHC Health Services of Nevada, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

BEHAVIORAL HEALTHCARE LLC
By: BHC Holdings, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

BHC PINNACLE POINTE HOSPITAL, LLC
BHC PROPERTIES, LLC
COLUMBUS HOSPITAL PARTNERS, LLC
HOLLY HILL HOSPITAL, LLC
LEBANON HOSPITAL PARTNERS, LLC
NORTHERN INDIANA PARTNERS, LLC
ROLLING HILLS HOSPITAL, LLC
VALLE VISTA HOSPITAL PARTNERS, LLC

By: Behavioral Healthcare LLC
Its Sole Member

By: BHC Holdings, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

BHC MESILLA VALLEY HOSPITAL, LLC
BHC NORTHWEST PSYCHIATRIC HOSPITAL, LLC
CUMBERLAND HOSPITAL PARTNERS, LLC

By: BHC Properties, LLC
Its Sole Member

By: Behavioral Healthcare LLC
Its Sole Member

By: BHC Holdings, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

CUMBERLAND HOSPITAL, LLC

By: Cumberland Hospital Partners, LLC
Its Managing Member

By: BHC Properties, LLC
Its Minority Member and Sole Member of the Managing Member

By: Behavioral Healthcare LLC
Its Sole Member

By: BHC Holdings, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

VALLE VISTA, LLC

By: BHC of Indiana, General Partnership
Its Sole Member

By: Columbus Hospital Partners, LLC
Its General Partner

By: Lebanon Hospital Partners, LLC
Its General Partner

By: Northern Indiana Partners, LLC
Its General Partner

By: Valle Vista Hospital Partners, LLC
Its General Partner

By: Behavioral Healthcare LLC
The Sole Member of each of the above General Partners

By: BHC Holdings, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE

Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

WELLSTONE REGIONAL HOSPITAL ACQUISITION, LLC

By: Wellstone Holdings, Inc.
Its Minority Member

By: Behavioral Healthcare LLC
Its Managing Member and Sole Member of the Minority Member

By: BHC Holdings, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

HORIZON HEALTH HOSPITAL SERVICES, LLC
HORIZON MENTAL HEALTH MANAGEMENT, LLC

By: Horizon Health Corporation
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

HHC PENNSYLVANIA, LLC
HHC POPLAR SPRINGS, LLC
KINGWOOD PINES HOSPITAL, LLC
SCHICK SHADEL OF FLORIDA, LLC
TOLEDO HOLDING CO., LLC

By: Horizon Health Hospital Services, LLC
Its Sole Member

By: Horizon Health Corporation
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

HICKORY TRAIL HOSPITAL, L.P.
MILLWOOD HOSPITAL, L.P.
NEURO INSTITUTE OF AUSTIN, L.P.
TEXAS CYPRESS CREEK HOSPITAL, L.P.
TEXAS LAUREL RIDGE HOSPITAL, L.P.
TEXAS OAKS PSYCHIATRIC HOSPITAL, L.P.
TEXAS SAN MARCOS TREATMENT CENTER, L.P.
TEXAS WEST OAKS HOSPITAL, L.P.

By: Texas Hospital Holdings, LLC
Its General Partner

By: Psychiatric Solutions Hospitals, LLC
Its Sole Member

By: Psychiatric Solutions, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE

Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

SHC-KPH, LP

By: HHC Kingwood Investment, LLC
Its General Partner

By: Horizon Health Hospital Services, LLC
Sole member of the General Partner

By: Horizon Health Corporation
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

H.C. PARTNERSHIP

By: H.C. Corporation
Its General Partner

By: /s/ STEVE
FILTON
Name: Steve Filton
Title: Vice President

By: HSA Hill Crest Corporation
Its General Partner

By: /s/ STEVE
FILTON
Name: Steve Filton
Title: Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

BHC OF INDIANA, GENERAL PARTNERSHIP

By: Columbus Hospital Partners, LLC
Its General Partner

By: Lebanon Hospital Partners, LLC
Its General Partner

By: Northern Indiana Partners, LLC
Its General Partner

By: Valle Vista Hospital Partners, LLC
Its General Partner

By: BHC Healthcare, LLC
The Sole Member of each of the above General Partners

By: BHC Holdings, Inc.
Its Sole Member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

INDEPENDENCE PHYSICIAN MANAGEMENT, LLC

By: UHS of Fairmount, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

BEHAVIORAL HEALTH MANAGEMENT, LLC
BEHAVIORAL HEALTH REALTY, LLC
CAT REALTY, LLC
CAT SEATTLE, LLC
MAYHILL BEHAVIORAL HEALTH, LLC
PSYCHIATRIC REALTY, LLC
RR RECOVERY, LLC
SALT LAKE BEHAVIORAL HEALTH, LLC
SALT LAKE PSYCHIATRIC REALTY, LLC
UBH OF OREGON, LLC
UBH OF PHOENIX, LLC
UBH OF PHOENIX REALTY, LLC
UNIVERSITY BEHAVIORAL HEALTH OF EL PASO, LLC

By: Ascend Health Corporation
Its sole member

By:

/s/ STEVE

FILTON

Name:

Steve Filton

Title:

Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

GARFIELD PARK HOSPITAL, LLC

By: UHS of Hartgrove, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

ABS LINCS KY, LLC
HUGHES CENTER, LLC

By: Alternative Behavioral Services, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

VALLEY HEALTH SYSTEM LLC

By: Valley Hospital Medical Center, Inc.
Its sole member

By:

/s/ STEVE

FILTON

Name: Steve Filton

Title: Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHP LP

By: Island 77 LLC
Its general partner

By: Ascend Health Corporation
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

BEACH 77 LP

By: 2026 W. University Properties, LLC
Its general partner

By: Ascend Health Corporation
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

CORAL SHORES BEHAVIORAL HEALTH, LLC
By: Children's Comprehensive Services, Inc.
Its sole member

By:

/s/ STEVE

FILTON

Name:

Steve Filton

Title:

Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

DVH HOSPITAL ALLIANCE LLC

By: UHS Holding Company, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

DHP 2131 K ST, LLC

By: District Hospital Partners, L.P.
Its sole member

By: UHS of D.C., Inc.
Its general partner

By:

/s/ STEVE

FILTON

Name: Steve Filton

Title: Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

UHS FUNDING, LLC

By: UHS of Delaware, Inc.
Its majority member

By: /s/ STEVE
FILTON
Name: Steve Filton
Title: Executive Vice President and Chief
Financial Officer

By: Universal Health Services, Inc.
Its minority member

By: /s/ STEVE
FILTON
Name: Steve Filton
Title: Executive Vice President and Chief
Financial Officer

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

MILWAUKEE BEHAVIORAL HEALTH, LLC

By: UHS of Delaware, Inc.
Its minority member

By:
FILTON

/s/ STEVE

Name: Steve Filton
Title: Executive Vice President and Chief Financial Officer

By: UHS Funding, LLC
Its majority member

By: UHS of Delaware, Inc.
Its majority member

By:
FILTON

/s/ STEVE

Name: Steve Filton
Title: Executive Vice President and Chief Financial Officer

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

FANNIN MANAGEMENT SERVICES, LLC

By: UHS of Texoma, Inc.
Its sole member

By:
FILTON
Name:
Title:

/s/ STEVE
Steve Filton
Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

JPMORGAN CHASE BANK, N.A., as Administrative Agent and Lender

By: /s/ Dawn Lee Lum
Name: Dawn Lee Lum
Title: Executive Director

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

Bank of America, N.A, as a Lender

By: /s/ Joseph L Corah
Name: Joseph L. Corah
Title: Director

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

TRUIST BANK, as a Lender

By: /s/ James W. Ford
Name: James W. Ford
Title: Managing Director

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

Goldman Sachs Bank USA, as a Lender

By: /s/ Dan Martis
Name: Dan Martis
Title: Authorized Signatory

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Jordan Harris
Name: Jordan Harris
Title: Managing Director

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

MIZUHO BANK, LTD, as a Lender

By: /s/ John Davies
Name: John Davies
Title: Authorized Signatory

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

MUFG Bank, Ltd, as a Lender

By: /s/ Kevin Wood
Name: Kevin Wood
Title: Director

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

PNC Bank, National Association, as a Lender

By: /s/ Emad N. Antoan
Name: Emad N. Antoan
Title: Senior Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

TD Bank, N.A., as a Lender

By: /s/ Steve Levi

Name: Steve Levi

Title: Senior Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

U.S. Bank National Association, as a Lender

By: /s/ Maria Massimino
Name: Maria Massimino
Title: Senior Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

Fifth Third Bank, National Association, as a Lender

By: /s/ Thomas Avery
Name: Thomas Avery
Title: Executive Director

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

SUMITOMO MITSUI BANKING CORPORATION, as a Lender

By: /s/ Gail Motonaga
Name: Gail Motonaga
Title: Executive Director

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

CAPITAL ONE, NATIONAL ASSOCIATION, as a Lender

By: /s/ Anthony B. Sendik
Name: Anthony B. Sendik
Title: Duly Authorized Signatory

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

KEYBANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Tanille Ingle
Name: Tanille Ingle
Title: Vice President

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

SANTANDER BANK, N.A., as a Lender

By: /s/ Alba Silston
Name: Alba Silston
Title: SVP

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

Siemens Financial Services, Inc., as a Lender

By: /s/ Virginia Greaker
Name: Virginia Greaker
Title: Authorized Signer

By: /s/ Maria Levy
Name: Maria Levy
Title: Authorized Signer

[Signature Page to the Eighth Amendment to the UHS Credit Agreement]

CERTIFICATION—Chief Executive Officer

I, Marc D. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Health Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2021

/s/ Marc D. Miller
Chief Executive Officer

CERTIFICATION—Chief Financial Officer

I, Steve Filton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Health Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2021

/s/ Steve Filton

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Universal Health Services, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marc D. Miller, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of, and for the period covered by, the Report.

/s/ Marc D. Miller

Chief Executive Officer
November 8, 2021

A signed original of this written statement required by Section 906 has been provided to Universal Health Services, Inc. and will be retained and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Universal Health Services, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steve Filton, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of, and for the period covered by, the Report.

/s/ Steve Filton

Executive Vice President and Chief Financial Officer
November 8, 2021

A signed original of this written statement required by Section 906 has been provided to Universal Health Services, Inc. and will be retained and furnished to the Securities and Exchange Commission or its staff upon request.